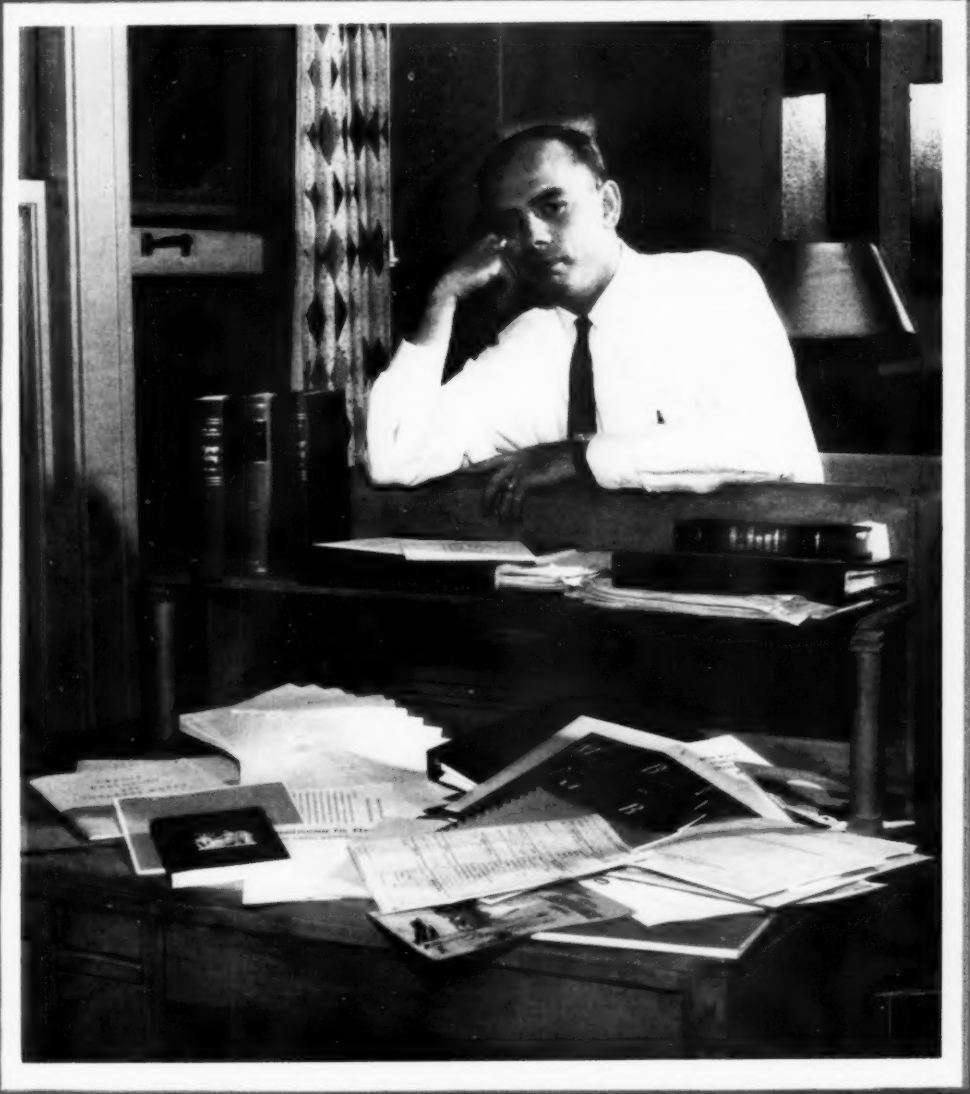
AUGUST 1960

# The Mortgage Banker





Young man with problems. See page 31

MORTGAGE BANKERS ASSOCIATION OF AMERICA · MBA · ORGANIZED 1914

*in this issue* - - - - - - - - FURTHER LOOK AT MORTGAGES FOR PENSION FUNDS ★ ELLIOTT BELL TELLS OF A NEW U. S. PROBLEM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OF
TITLE
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## MBA CALENDAR

**September 16,** Pension Trust Officers Seminar, Hotel Commodore, New York.

**October 3-6,** 47th Annual Convention, Conrad Hilton Hotel, Chicago

**December 4-10,** Case-Study Seminar on Income Property Financing, Michigan State University, East Lansing, Mich.

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▶ PROFOUND CHANGE: Saving by means of life insurance "has slowed down perceptibly" in the last few years, said Dr. James O'Leary, economic research director of the Life Insurance Association of America, in addressing an agents' meeting celebrating the centennial of Guardian Life Insurance Co.

Savings of the people represented by life insurance assets have risen from $1.5 billion in 1899 to $108 billion in 1959, Dr. O'Leary said. They have tended to double every 10 years, and the annual rate of rise through the 60 years has ranged from 6 per cent to 12 per cent.

These funds have provided more than half of the new money put into industrial bonds and a large part of that invested in business and residential mortgages in the period.

But recently the yearly rate of increase has declined, falling from 6.9 per cent in 1954 to 5.3 per cent in 1959. Looking ahead, he said:

"If life insurance savings perform during the '60s as they have since 1954, total accumulated life insurance savings in the decade will increase about $55 billion, or a little more than 50 per cent—far below the doubling of earlier decades. This is not a happy prospect in view of the great needs which lie ahead for the sound financing of economic growth."

Dr. O'Leary blamed the slowdown largely on a tendency to write "an increasing proportion of business that involves little or no element of saving." He said: "A strong shift has taken place in the 'product mix' of life insurance toward individual term and group business and away from permanent cash value insurance, which involves the accumulation of savings."


# *The Mortgage Banker*

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CARTON S. STALLARD, *Second Vice President* — FRANK J. McCABE, JR., *Executive Vice President* — GEORGE H. DOVENMUEHLE, *Treasurer*

*Association Staff:* Samuel E. Neel, General Counsel; Lewis O. Kerwood, Director, Education and Research; James G. Wasson, Director, Servicing and Accounting; Richard G. Oller, Assistant Director, Education and Research; Robert J. Murphy, Assistant Director, Servicing and Accounting.

**Executive and Editorial Office**
111 West Washington Street, Chicago 2
Tel. RAndolph 6-5704

**Washington Office**
1001—15th St., N.W., Washington 5, D. C.
Tel. MEtropolitan 8-4258

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GEORGE H. KNOTT, *Editor* — ROBERT J. BERAN, *Associate Editor*

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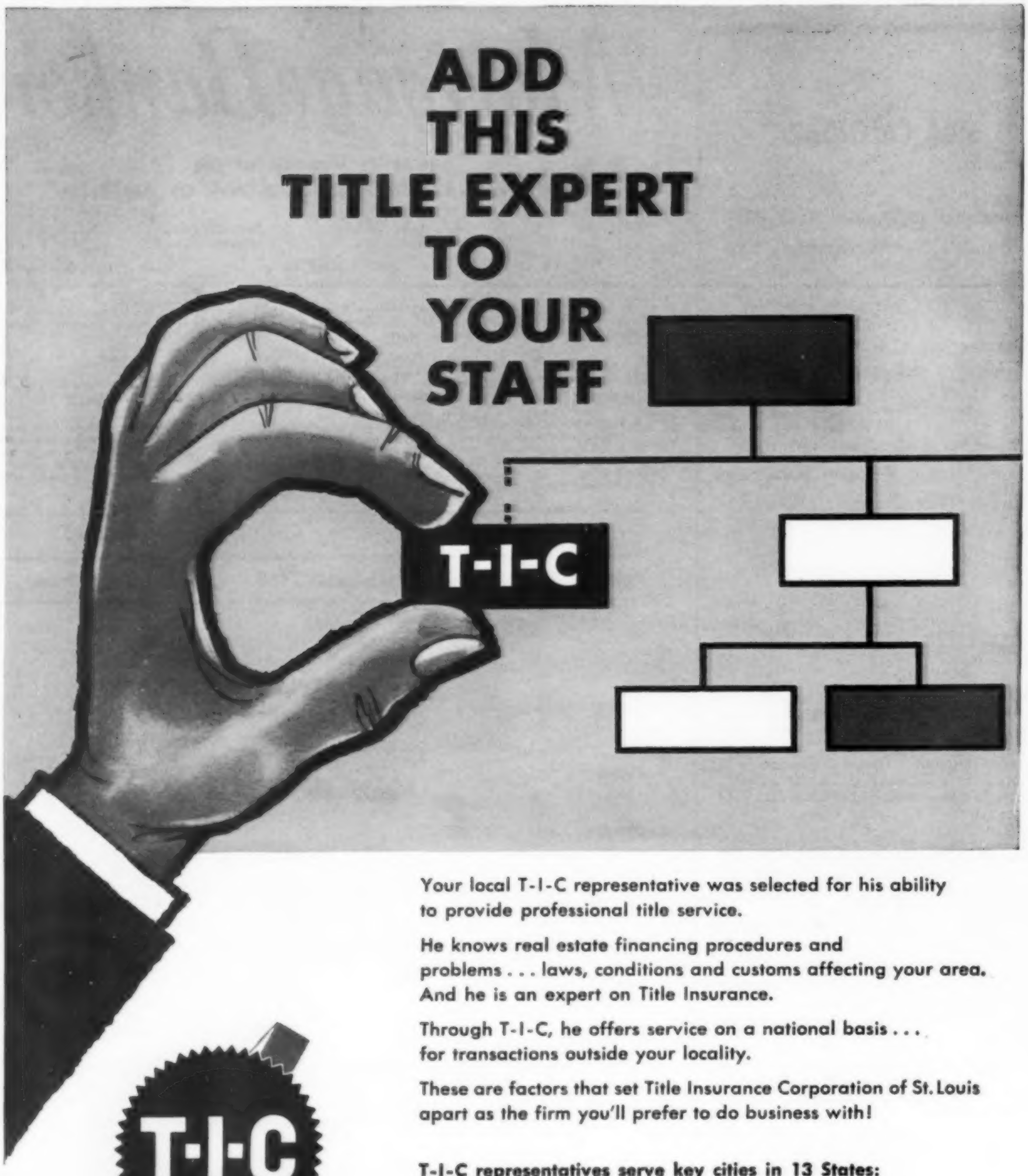


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# NEWSCOPE

If platform promises are translated into actual activities, then expect increased federal interest in many areas of housing and housing financing. Both parties viewed slum clearance, urban redevelopment, housing for the elderly, and more and better housing for everybody as objectives to which they pledged their best efforts.

Mortgage market gets into the second half with conditions improved, prospects somewhat brighter. But pertinent factors of the moment are: Savings are not keeping pace with investment demand. Home sales have lagged. FHA applications are down with conventional financing receiving more attention.

Permitting individuals to buy FHAs met with mixed reaction. There was enthusiastic approval, full acclaim for FHA in making it possible. But for the moment the general view is that not a great amount of immediate activity will result, and what does develop will come from large sophisticated investors. The feeling is that it's a wonderful thing, a challenge for mortgage bankers, one that opens a great new field for mortgages but that it will take a good deal of work and education to start a substantial flow of investment funds into FHAs.

Sixty-one per cent of all U.S. non farm families own their own homes, that's 28 million in all. It contrasts with 53 per cent ten years ago and 45 per cent 30 years ago. Mortgage recordings last year amounted $32,235,000,000, bringing total mortgage debt to $131 billion, 11 per cent more than at end of 1958 and twice what it was in 1953. These facts come from the U.S. Savings and Loan League's Fact Book which shows that their institutions gained $6.7 billion in savings last year, the commercial banks $2.7 billion, mutual funds the same amount, mutual savings banks $1 billion and credit unions $600 million. Savings bonds fell by $1.9 billion and postal savings by $200 million.

Life company purchases of mortgages. Life companies' mortgage investments, increasing continuously since the end of World War II, rose by $2.1 billion in 1959 to a total of $39.2 billion, three times the 1949 figure. In relation to total assets, life companies' mortgage holdings have risen from a low of 14.8 per cent at the end of World War II to 34.5 per cent at year-end 1959.

Geographic distribution of holdings has been changing, with a larger proportion being held in the South and the West in line with the general development of these areas. In the South, first among the four main regions of the country in amount of life companies' mortgage investments in 1959 as in 1949, holdings advanced between these years from 34 per cent to 37 per cent of the aggregate, while in the West the proportion rose from 15 per cent to 21 per cent. In the North East, on the other hand, the proportion fell from 24 per cent to 14 per cent during the decade. The North Central states accounted for the same proportion of total holdings in 1959 as in 1949—26 per cent.

Distribution of holdings by type differs considerably between the four main regions. Of the three major categories of mortgages—farm, non-farm insured or guaranteed, and non-farm conventional—the latter constituted the largest single category of holdings in all regions except the South at the end of 1959.

# Quotes

## *Reflections of the World Today in Capsule Comments*

### *CANDID CANDIDATES*

*Says Presidential Nominee John F. Kennedy:*

"Reverse the high interest rate policies; step up our efforts to clear slums and renew cities; adapt federal mortgage insurance to the needs of middle and low income groups; encourage development of cooperative and public housing."

*Says the Democratic Party platform:*

"A new Democratic administration will act to make our free economy really free—free from the oppression of monopolistic power—free from the suffocating impact of high interest rates. We will help create an economy in which small businesses can take root, grow, and flourish.

"Today our rate of home building is less than 10 years ago. A healthy expanding economy will enable us to build 2 million homes a year in wholesome neighborhoods, for people of all incomes.

"At this rate, within a single decade we can clear away our slums and assure every American family a decent place to live."

*Says the Republican Party platform:*

"The Republican party will vigorously support the following steps, all designed to supplement and not supplant private initiative:

"Continued effort to clear slums, and promote rebuilding, rehabilitation, and conservation of our cities.

"New programs to stimulate development of specialized types of housing, such as those for the elderly and for nursing homes.

"A program of research and demonstration aimed at finding ways to reduce housing costs, including support of efforts to modernize and improve local building codes.

"Adequate authority for the federal housing agencies to assist the flow of mortgage credit into private housing, with emphasis on homes for middle- and lower-income families and including assistance in urban residential areas.

"A stepped-up program to assist in urban planning, designed to assure farsighted and wise use of land and to co-ordinate mass transportation and other vital facilities in our metropolitan areas.

"Because we are concerned about the well-being of people, we are concerned about protecting the value of their money. To this end, we Republicans believe that:

"Our tax structure should be improved to provide greater incentives to economic progress, to make it fair and equitable, and to maintain and deserve public acceptance.

"We must resist assaults upon the independence of the Federal Reserve System; we must strengthen, not weaken, the ability of the Federal Reserve System and the Treasury Department to exercise effective control over money and credit in order better to combat both deflation and inflation that retard economic growth and shrink people's savings and earnings."

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### *A WAY OF LIFE*

*Something new has crept into the American Way and become pretty firmly imbedded, says Arthur H. Motley, U. S. Chamber president:*

"This is the era of the Big Grab in American politics. We have a form of dishonesty which, for all its subtlety, makes the worst of the old Tammany Hall practices look like peanut pilfering, and millions of us are guilty of sharing happily in the loot.

"Today tens of millions of dollars are grabbed in lump sums out of the U. S. treasury—out of everybody's pocket—to build a waterways project benefiting only a small area; to build sewers or sidewalks or clear up a blighted downtown area in some com-

munity which has found a new way to shirk local responsibility.

"We hear demands for billions of dollars of federal aid to education from areas which are short of school funds only because they hold down their own property taxes as a means of luring industries from other areas.

"One state exempts new manufacturing firms from property taxes for five years. Another offers certain new firms a 7-year exemption. Two others offer exceptions for up to 10 years.

"Northern, as well as southern states, are offering such property tax exemptions, and that while it is any state's right to do so, no state which offers such exemptions can be honestly said to be incapable of supporting its own schools.

"It's become a matter of: you help pay for my children's education so that it will be easier for me to entice away your industry. Or, why should we build our own airport when we can make the rest of the country help foot the bill. Or, our area is depressed; give us some of your tax money that we can use to subsidize some of your industries away from you.

"When people pool their political influence and make selfish demands, their political leaders can be expected to accommodate them."

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### RE: PUBLIC HOUSING

*Said Bruce C. Savage, new Public Housing Administrator:*

"Until 1953, I was as strongly opposed to public housing as I am for it today.

"After President Eisenhower appointed me to his advisory committee on government housing policies and programs, I figured I'd better find out more about it.

"I visited slum areas and low-rent housing projects in several large cities. The visits opened my eyes.

"So long as there is at least one slum area left, we have a need for public housing.

"If we can take people out of the slums and give them living room for the entire family, where the dignity of the individual can develop, we're doing the job we're supposed to.

"To make public housing really effective, we are going to have to develop a social service program to work with the families."

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### *ADVICE FOR THESE TIMES*

*Credo for an election year. In the opinion of Donald I. Rogers, business editor, New York Herald Tribune:*

"To any and all candidates who this year are seeking election to public office, I hereby serve the following notice: I will cast my vote, positively pledge it, for whichever candidates do not promise me a single solitary 'benefit'; conversely, I will vote against any who promise to improve my lot. I've been improved all I want to be and, by golly, my lot can't afford any further improvement."

•

"Basic research is when I am doing what I don't know what I am doing."

—Dr. Wernher von Braun,
Missile expert

•

"I'd pay my taxes with a smile—but the government insists on cash."

—Henry Morgan

# NEW MORTGAGE MARKET . . .

*. . . and of course it's the pension fund market which, at this moment, is getting close and critical attention from the mortgage industry. In the last issue of The Mortgage Banker we published two articles about the market, what it is going to take to open it completely and what some mortgage bankers have already done. There's another article in this issue and here is a round-up summary of just how fast and how far the pension funds have come during the last decade. Never before—and undoubtedly never again—has there been such an opportunity to create an entirely new investor in mortgages as is now presented in the pension funds.*

Paced by a steadily accelerating growth in private plans, the funds accumulated behind the nation's far-flung system of pension and retirement programs, public and private combined, increased by more than 150 per cent in the last decade to enter the Sixties with an aggregate that is rapidly approaching $100 billion.

Of particular significance in this record of achievement is the performance of the private plans, insured and noninsured together. Their assets and reserves showed a rate of growth for the Fifties double that of their governmentally-sponsored counterparts, a reversal of the trend in the previous decade when government plans set the growth pace.

Figures from private and government sources show that the resources of all public and private pension programs increased by $58 billion between 1950 and 1959 to add up to $95.2 billion at the end of last year. The rate of expansion in recent years indicates that the level of $100 billion in assets will be attained this year.

Here is another outstanding accomplishment in the American people's long and persistent striving for security through individual and cooperative action. Taken together with the great growth of savings and of life insurance and other personal benefit programs over the years, the progress on the pension front represents a major addition to the protection of the individual and the family against the economic impact of death, disability and retirement.

At the same time, an important new source of capital and investment funds to help promote the growth of the economy has been created, with private pension and retirement funds taking a leading role in this respect. It is significant to note that the number of insured pension plans has more than doubled in the past decade, now adding up to more than 28,000 and

representing somewhat more than half of all private plans.

The figures show that the assets and reserves of private pension and retirement programs practically quadrupled during the last decade, rising from an aggregate of \$11.7 billion in 1950 to \$44.3 billion at the end of 1959. Of these totals, reserves of insured pension plans grew from \$5.6 billion to \$17.5 billion in the period, while assets of noninsured funds increased from \$6.1 billion to \$26.8 billion.

At the same time, the assets of the governmentally-sponsored retirement funds, which are rooted in the taxing power, almost doubled, rising from \$25.7 billion in 1950 to \$50.9 billion at the end of 1959. The stellar performers in this group in the last decade were the state and local employees retirement programs, their combined assets increasing from \$5.2 billion in 1950 to \$17.6 billion at the end of last year.

By contrast, the OASI fund, which aggregated \$13.7 billion in 1950, reached a peak of \$22.5 billion in 1956 and then receded to close the decade at \$20.1 billion. The Civil Service Retirement fund grew from \$4.2 billion to \$9.5 billion between 1950 and 1959, and the Railroad Retirement fund from \$2.6 billion to \$3.7 billion.

Reflecting these trends, assets and reserves of private pension and retirement funds represented 47 per cent of the combined resources of all retirement funds at the end of last year as against only 31 per cent at the beginning of the Fifties. Accompanying this growth has been a marked increase in coverage, with about half of all private nonfarm workers now enrolled under private pension and retirement programs, insured and noninsured combined, as against a proportion of less than a third at the beginning of the Fifties. The OASI system was set up to cover the predominant part of the working population.

In keeping with their steadily rising assets and reserves, private pension and retirement plans have become a significant factor in the capital market as a source of funds to help promote economic growth. Over the past decade the figures show that their annual contribution in this respect rose from somewhat over \$1½ billion in 1950 to more than \$5 billion in 1959. Corporate bonds represent the biggest single holding, but in addition insured plans are a big source of mortgage funds while corporate pension plans are large investors in common stocks.

Two distinct investment practices are evident in Government retirement programs. State and local plans show a marked similarity to private programs in their diversification in nongovernmental investments as well as in their asset growth trend, and last year made about \$2 billion available

to the capital market. On the other hand, Federally-sponsored funds by law are restricted to investment in U. S. Government securities; and because of the decline in the OASI fund since 1956 have shown only a negligible overall increase in assets in the last few years.

## MCA BEGINS A NEW IDEA

The Mortgage Corporation of America, the first firm organized to enable investors to invest in FHA loans through issuance of notes, has completed its financing and is now operating. The financing was accomplished by private placement of $1,000,000 of 20-year notes to two Baltimore investors, an insurance company and an employees retirement fund.

The issue of 5¼ per cent collateral trust notes, non-callable within five years, was sold at 97.5, with the first maturity of $300,000 due in 1969.

Funds for the new note issue came from a source which otherwise might not have entered the mortgage market, and showed the eligibility of pension funds, etc., as a supply of available money for government-insured home mortgages.

MCA was formed following revision in 1958 of FHA regulations to permit a participating interest in FHA-insured mortgages through sale of obligations to the public. A year ago a sale of notes at the rate of 4⅝ per cent had been planned, but later a negotiated sale was decided upon, with the Securities and Exchange Commission approving the higher rate.

MCA is organized to engage in originating, investing and servicing FHA-insured obligations and is the first company of its kind to get fully under way.

Under the financing plan, a buyer of the notes, in effect, has an interest in a group of mortgages, yet is not involved with the detail work of direct investment. The note sale, the company states, is the first of several planned as needed.

Edward K. Jones, president, Weaver Bros., Washington, is president. Other officers are Sidney H. Tinley, Jr., Baltimore, senior vice president, Weaver Bros., Inc., of Maryland, treasurer; Martin R. West, Jr., vice president and secretary; Hugh H. Gambrill, assistant secretary. The directors include Messrs. Jones, Tinley and West and Miss E. Catherine Byrne, executive vice president, Weaver Bros., Baltimore; Cary Winston, Washington; and William F. Sey, New York.

## PROBLEMS OF AN AGING U.S.

If—as an increasing number of observers believe—one of the foremost challenges during the remainder of this century is the complex of problems resulting from our aging population, then a milestone is probably being recorded in the work which has been undertaken by the White House Conference on Aging. It is scheduled for Washington, January 9 to 12, 1961 and there will be gathered authorities from every field which has a bearing on these complicated social problems. An important part of the Conference is the Committee on Housing, the chairman of which is MBA Past President Walter C. Nelson of Minneapolis. Mr. Nelson's Committee has just published a background paper on housing for the elderly—but paper is hardly the word for the effort since it is actually a most extensive and detailed study. The report is in five sections—housing needs, housing supply, current

efforts affecting housing supply for the aged, changing trends and patterns in housing for older people and the problems and issues the country faces.

Mortgage bankers may well find that in the coming years an important part of their business and efforts may be in housing for the elderly and for background material the Nelson report will serve as an essential tool for a general understanding of what is involved.

## SAVINGS FOR GROWING U. S.

A closeup of the flow of funds in and out of the capital market in an expanding economy, and its responsiveness to the needs of business and industry, government, and the general public as homeowners and consumers, is presented in a study by the Life Insurance Association of America.

The figures point up the growing role of savings and the people's thrift institutions in helping to meet spectacular increases in demands for lendable funds in recent years to keep the nation's economic wheels moving in high gear. Funds supplied by the savings institutions combined—life insurance companies, savings and loan associations, mutual savings banks, and corporate pension funds — increased from \$7.7 billion in 1950 to a record \$18.2 billion in 1959, a rise of 136 per cent.

At the same time, demands for funds on the capital market increased from \$30 billion at the beginning of the last decade to a new high of \$56.8 billion last year, a rise of just under 90 per cent. Thus the contribution of the savings institutions in meeting the nation's investment needs has increased as far as rate of growth is concerned.

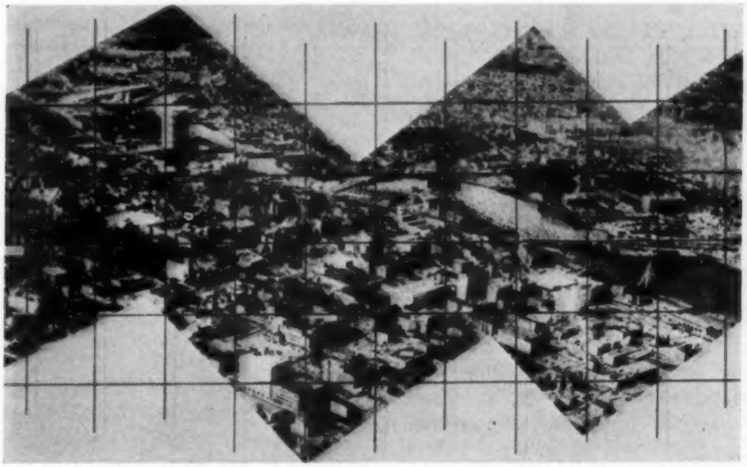
For the last decade as a whole, the savings institutions represented the capital market's leading source of investment funds, their combined total for the period adding up to just under \$129 billion, or 35 per cent of the \$370 billion in aggregate capital market demands from 1950 through 1959. Close behind was a total of \$119 billion contributed by a group of investors consisting of corporations, fire and casualty companies, foreign investors, and a general classification of individuals and others.

The banking system also was a large source of funds, amounting to \$78 billion in the 1950-59 period, despite the inflationary implications of such lending under prevailing conditions. The balance of \$44 billion of funds flowing into the capital market in the last decade came from Government—State and local funds, U. S. investment accounts, and Federal loan agencies.

On the demand side, the general public was far out in front with \$128 billion going into mortgages, largely on homes, in the 1950-59 period, and \$34½ billion more in consumer credit. Total demands from the business world added up to just under \$114 billion in the decade, consisting of \$45 billion in corporate bonds, some \$21 billion in corporate stocks, and \$47 billion in business credit.

Swelled by U. S. deficit financing, Government demands on the capital market in the 1950-59 period exceeded \$79 billion, of which over \$40 billion were Federal and \$39 billion State and local. Miscellaneous demands for funds added up to \$14 billion.

# VITAL DECISIONS THE NATION MUST FACE



*By Elliott V. Bell*
*Editor and Publisher of Business Week*

*Now comes, as it does every four years, that peculiarly American phenomenon, the national political campaign, U. S. style. The basic theme for it seems to have been decided: that the country has reached a definite turning point in its national development, this is a new era, a new frontier is ahead. Much of the thinking, the actions, the plans and the programs of the past will no longer serve the purposes they once did. And so it will be debated in the months ahead, with the people sitting as a jury to render a verdict in November. We may well have reached another vital turning point in our national growth over which we had little or no decision and that is what Mr. Bell describes here. If that's what it is, then the future does call for new approaches, new planning, new ways and means to accomplish in the future as much as we accomplished in the past.*

BACK IN THE late 1920's there was a good deal of talk about a "new era." It was to be an era of widespread and lasting prosperity.

A chicken in every pot and two cars in every garage was the way politicians described it. We had emerged from the Great War with a new understanding of America's industrial might, with high and rising living standards and the knowledge that modern industrial and agricultural know-how had created a productive capacity adequate to provide all the people with all the necessities and many of the luxuries of life.

Currencies had been stabilized and restored to the gold standard, budgets balanced and inflation (at least in the commodity market) checked. The United States as the new financial and industrial leader of the world was lending large sums to Europe, Japan and Latin America. The Federal Reserve had demonstrated its ability to prevent minor recessions from developing into big ones and the opinion was widespread, although not universal, that we had licked the business cycle and would never again experience the major economic collapses which characterized our past history.

It all sounds a little familiar, doesn't it?

We know what happened. A new era came; but it was a frightful time of economic blight: A decade of chronic unemployment, not ended until the Second World War began; a long powder-train of bankruptcies, currency collapse and grinding deflation.

It was 30 years after 1929 before anyone had the courage again to talk about "a new era."

Now in recent months that phrase has again become widespread. There is a rather general opinion that we

are at one of those significant turning points in history where one chapter ends and another begins.

The question is what will the new era be like? Will it be a period of endless prosperity such as the optimists of 1929 predicted or a nightmare such as actually followed 1929?

We've had a spate lately of speeches and articles about the soaring 60s. It must be that every high school sophomore can recite the story of the coming "population explosion"—how we are going to have more young people of marriageable age than ever before and how they are going to get married, have babies and consume houses, washing machines, refrigerators, automobiles, et cetera, like crazy. We all know too that American industry is also pregnant—pregnant with new inventions, new skills, fertile with the seeds of research and development.

We have been assured that in the glorious time ahead we will all consume more, work less and rise to higher and higher standards of living, chiefly by having more leisure and more babies—a fascinating prospect, especially for the young. We've had a large portion of pie-in-the-sky. And lately it's been just a little indigestible.

I believe we can have an era of great economic progress. I believe we can continue to provide a good, and constantly improving life for our people. I believe that much of the rest of the world can share in the kind of good life America has. I believe we can avoid another Great Depression. . . . But I do not believe it will be done by feeding each other modern economic fairy tales of pie-in-the-sky. I do not believe it will be done by ignoring the lessons of the past or by trying to ignore and minimize the problems of the future. We are entering a new era but the chief characteristic of that era is that it brings back into the foreground some of the toughest, most stubborn problems of the past—problems we failed before to solve—with disastrous consequences.

There is a grim saying by the eminent Harvard philosopher and skeptic, George Santayana, that "Those who do not remember the past will be condemned to repeat it."

In the past, every great war has been followed by a great depression. The pattern has been consistent. War and postwar inflation results in roughly doubling the price level. There is a period of booming prosperity. Then the bubble bursts; depression sets in and prices ultimately return to where they were before the war. This pattern has held true throughout modern times, not merely for the United States, but for Great Britain. It occurred after the Napoleonic Wars and after our Civil War, just as it did after World War I.

The end of the last war found the world with an enormous backlog of needs to make up—a backlog that had recovery and reconstruction by one of the most remarkable examples of statesmanship and generosity in the history of nations. Since 1945 we have made available to the world—our erstwhile enemies as well as our allies—nearly $80 billion, net, of loans, gifts, grants-in-aid and other forms of assistance.

So urgent was the world's need for products only the United States could supply that the demand for dollars seemed insatiable. The theory was widely accepted of a permanent shortage of dollars in the world—a so-

*"The time has come for some plain speaking. The problem has been developing for ten years. It has been serious for two years. It is still serious. It will not go away by itself. It is real. It is urgent. If we temporize, delay, or neglect it, we shall do so to our great peril. If our friends abroad try to ignore it, they will find that they too have done so to their peril. There are, of course, certain steps we must take. The efforts now being made to stimulate our exports are good. To this end, we must make our people understand that keeping costs—including wage costs—in line with economic reality has now become a matter of national urgency. American prices must be kept competitive. Credit restraint and budgetary conservatism are no longer a matter of free choice—our creditors will insist upon them. If we are slack, they have the means to discipline us by pulling out gold."*

accumulated not just in the war period but during the long depression. We needed houses, autos, television sets and all the paraphernalia of the good family life.

The rest of the world needed not merely all these things but in the first years even food to support life. It needed also to rebuild its shattered roads, factories and cities. Demand was limitless.

And there were the means to finance this great demand. At home we had the enormous carryover of liquid assets from the war and a greatly expanded money supply, augmented by an explosion in mortgage debt, consumer debt and state and municipal debt.

Abroad, the United States financed

called dollar gap, between what other countries needed to buy from us and what they were able to sell to us.

It was said that world trade was like a poker game in which the United States consistently held all the winning cards. The idea was we would have to keep giving away chips to prevent the other players from being frozen out of the game.

Now we have suddenly realized that the situation is reversed. There is no longer any shortage of dollars in the world—no dollar gap. Instead the rest of the world as a whole is acquiring more dollars than it is willing to spend. The poker game has shifted. Now it is the United States whose pile of chips is sinking. In economic language, the United States has a

deficit in its international balance of payments. This means that the total amount of money we are paying to the rest of the world—for goods and services (including tourist spending), for military and economic aid, for remittances and pensions, for making investments abroad, for all purposes—is greater than the amount the rest of the world pays us.

The truth is we have had a deficit in our balance of payments for the past ten years, excepting for 1957, when our large sales of oil and coal to Europe following the Suez crisis gave us a very substantial one-year surplus.

During the years between 1949 and 1958 the deficit in our balance of payments averaged about $1.5 billion but in 1958 it suddenly jumped to $3.4 billion and in 1959 to $3.7 billion. The deficit for this year will be a little smaller due to some special factors (including some large European purchases of American-made jet planes) but it is nevertheless expected to reach $2.5 billion, perhaps even $3 billion. No nation, however rich, can continue indefinitely to run a deficit of this magnitude in its international balance of payments.

This one circumstance—the appearance of a large United States payments deficit—would be enough, in my judgment, to justify us in saying that a new and critical era lies ahead.

Consider the economic consequences of this change.

The United States program of international assistance has been, in effect, like a huge pump-priming program, conducted on a global scale. It has financed a tremendous foreign demand for American goods, and it has made possible the rebuilding of Europe's industrial plant.

Obviously when this great outpouring of dollars comes to an end, world trade will lose something that has been a prolonged and powerful stimulus. There will no longer be room for doubt that the era of world-wide postwar inflation is over; the big question will be whether deflation must inevitably follow?

Now, why must our great global pump-priming program that has done so much good be ended?

No country, not even the United States, can keep on giving away its money to foreigners forever without reaching the bottom of the barrel. How soon the bottom of the barrel is reached depends on two factors: one, the willingness of foreign central banks and governments to keep on accumulating dollar balances without asking for gold; two, the reserves of gold available should it be asked for.

At present we have left about $19 billion gold, a very large sum, and far more than any other country has. However, foreigners now hold just about $19 billion of short-term dollar assets for which they could demand gold.

*Large conversion of foreign holdings could be disastrous*

This brings us to the most important reason why our balance of payments deficit is disturbing. Any substantial conversion of foreign dollar balances into gold would have a restrictive effect upon our economy. Under the workings of our money system, gold withdrawals tend to reduce the money supply, tighten credit and bring about inflation. This is the discipline of the gold standard. Under the gold standard, nations which pursued loose fiscal policies, had persistently un-balanced budgets or persistent deficits in their international balance of payments, soon found themselves losing gold and had to mend their ways promptly or risk being forced off gold.

In the period of world-wide depression in the 1930s, this gold standard discipline proved insupportable and country after country abandoned the gold standard and adopted "managed money" policies. They were willing to let the external, foreign-exchange value of their currencies fluctuate in order to be free to take whatever steps they wished to maintain economic stability at home.

Now all of the principal countries of Europe have stabilized their currencies. In effect, the world has returned to a gold exchange standard. Since the United States has maintained from 1934 a fixed price for gold at which it will sell to foreign central banks and governments, most countries keep only part of their reserves in gold and a large part they keep in dollars. The dollar has thus become the principal reserve currency of the world. As such it will be narrowly watched and there must be absolutely no question about our ability to meet instantly in gold, all demands that may be made on us.

The practical consequence of this is that, for the first time in a quarter century, the United States has lost the freedom to take whatever fiscal or monetary measures it sees fit to maintain domestic economic stability. For the first time since the early 1930s we are subject to the discipline of the international gold standard.

Let's spell that out. Since the end of World War II, we have had four recessions. Each has been comparatively mild and short-lived. In each case the government has taken steps to combat the recession by reducing interest rates or running a budgetary deficit or both. In the recession of 1958, for example, interest rates were sharply reduced and the Federal budget went into the red for $12.5 billion.

If a new business recession were to start next month, it is highly unlikely that the Federal authorities would feel free to follow again the same anti-recession policy of drastically cheapening money and unbalancing the budget. To do so would almost certainly result in a substantial outflow of gold as foreign central banks, governments and others withdrew some of their balances from this market in fear of dollar depreciation.

There is another aspect to this problem. A nation cannot be a strong leader of other nations if it is the victim of a chronic deficit in its balance of payments.

We saw this poignantly illustrated in the late Twenties and early Thirties in the case of Great Britain. Sterling had been restored to gold at too high a level. It was under constant pressure in the foreign exchange market. Each time Britain tried to reflate in order to meet unemployment at home, she was faced with a run on sterling from abroad. Beyond that, it seemed as though each time there was an international conference or a difference of opinion among nations, there would be fresh withdrawals of gold from London, weakening and embarrassing the British Government.

Some Britons accused France of practicing "financial frightfulness" by deliberately withdrawing balances from London to put pressure on Britain. The French said: Nonsense.

It was simply that every time Britain pursued policies the French didn't like, French people naturally lost confidence in sterling and regretfully withdrew their money from London.

There can be no sentiment in the realm of international exchange. If our allies disagree with some of our policies, there will be "distrust of the dollar." If foreign central banks and governments get the idea in their heads that the dollar is over-valued or that we are not going to take effective steps to deal with the long-standing deficit in our balance of payments, they will ask for gold, no matter how well disposed they may be.

There are those who would like to brush aside the dollar deficit as a matter of no importance or as just a temporary imbalance that will cure itself. It is feared that calling attention to this persistent large deficit may arouse a new wave of isolationism or protectionism — bring forth a new Smoot-Hawley tariff.

There is no retreat to isolation open to us in today's world. A reversion to high tariffs would rip apart our political alliances and mark a crushing defeat in the struggle between the free world and Communism. Moreover, United States business has gone heavily international. International trade is in and of itself a powerful force for growth and efficiency. The answer to our problem will not be found in trying to shut our markets to foreign goods. Neither, in my opinion, will the whole answer be found, as the State Department and Commerce Department seem to hope, in a vast expansion of our exports.

Look at the figures. Even in 1959, when our over-all deficit was $3.7 billion, we had a surplus of merchandise trade of over $1 billion. To overcome our current rate of deficit solely by increasing exports would require a merchandise trade surplus of more than $4.5 billion.

Given the present policies in the United States on the one hand and those of Western Europe and Japan on the other, it is most unlikely that this country can expand its export surplus in the next two or three years to any such startling extent.

Such a course, if successful, might only result in seriously disrupting the economies of Europe and Japan, creating new international problems as bad as the one it seeks to solve. Bear in mind that at this moment Europe is unwilling to spend all the dollars she is earning, preferring the money to the goods. The countries that need and want more American goods are the underdeveloped countries of Asia and Africa—and they do not have the money to buy.

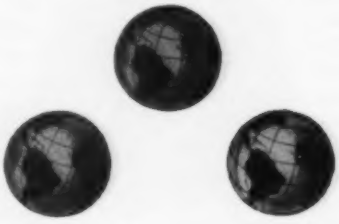
The point is our adverse balance does not come from merchandise trade or from normal commercial transactions. It comes from the following, using the figures for 1959: Net military spending abroad, nearly $3 billion ($2.9); Government grants (excluding military aid grants) $1.7 billion. Here is a total of nearly $5 billion of American money, spent or given away abroad.

Here is the source of our deficit and it is in these items that we will have to look for a prompt solution.

The time has come for some plain speaking. The problem has been developing for ten years. It has been serious for two years. It is still serious. It will not go away by itself. It is real. It is urgent. If we temporize, delay, or neglect it, we shall do so to our great peril. If our friends abroad try to ignore or evade it, they will find that they too have done so to their peril.

There are, of course, certain steps we must take. The efforts now being made to stimulate our exports are good. To this end, we must make our people understand that keeping costs —including wage costs—in line with economic reality has now become a matter of national urgency. American prices must be kept competitive. Credit restraint and budgetary conservatism are no longer a matter of free choice—our creditors will insist upon them. If we are slack, they have the means to discipline us by pulling out gold.

When we have done all we must do in this respect, there still remains a stark choice — either we must have from our friends and allies in the free world the same sort of cooperation we have given them or we probably shall be forced to take drastic unilateral action to protect the dollar.



*"... the United States has acted both as pump-primer and stabilizer for the free world and it is time to share this job with others. I certainly do not wish to appear in the role of prophet of gloom. On the contrary, I am confident that the knowledge we have acquired and the strength we have built into the national economies of the free world will make it possible for us to deal with our problems without repeating the disastrous experiences of the past. I have great confidence in the ability of intelligent men to find a way out of any difficulties that present themselves. I fear only the very human tendency to keep applying yesterday's solutions to today's problems."*

The United States is providing substantial sums for military aid in Western Europe and spending very large amounts there for our own military forces. The time has now clearly come when our European Allies must take a bigger share of these joint defense costs. The fact that Europe is accumulating dollar reserves at such a high rate is proof that at least some European countries could pay for a larger share of the costs of common defense without hardship. Why, for instance, should the United States military expenditures in West Germany add $600-million or more a year to our balance of payments deficit, while Germany is in so strong a surplus position?

Our program of foreign economic aid should be confined to the underdeveloped countries and here, too, certain of the European nations, notably Germany and Italy, ought to be able to take up some of the burden.

Nations that we have aided should now accelerate the repayment to us of loans we made them in their time of need. Great Britain has already done something along this line.

The division of Western Europe into two trading blocs also is a matter that affects our balance of payments position. Six nations of the Continent, led by France and Germany, have established a Common Market, while seven other nations, including Great Britain and the Scandinavian countries, have formed a rival free trade area. These are moves toward political and economic integration such as we have advocated; but they have provoked a good deal of tension among some of the countries involved, especially Britain on the one hand and Germany and France on the other. There is the danger of Europe becoming divided into rival trading blocs that might discriminate against each other and against us. In an effort to avert this, we are planning with Canada, to join a new 20-nation organization embracing both the so-called Inner Six and the Outer Seven. But when this organization will be in operation and what it may cost in concessions of our own freedom of action is still unknown.

The far-reaching character of these newly emerging economic problems suggests the danger that the free nations, committed as they are to an economic cold war with the Soviet bloc and its state trading system, may become inadvertently involved in an economic battle royal among themselves.

Under the circumstances, the time is ripe, it seems to me, for the United States to take the lead in calling a new world economic conference.

The kind of conference I have in mind would be comparable in scope with the London Economic Conference of 1933. But I devoutly hope that its outcome would be different. It was to that conference, you will remember, that President Roosevelt sent his famous message rejecting currency stabilization and the gold standard as "old fetishes of so-called international bankers." This threw the talks into confusion, and the conference broke up without reaching any agreement.

It is important to realize that in the quarter-century since 1933, the world has become almost universally committed to the welfare state. And yet it has returned, almost inadvertently, as it were, to a gold standard. It has done this without any certainty that the people are prepared to accept gold standard discipline. We must now face up to the problems that are inherent in this situation. We must, in short, bring the knowledge that we have gained in the past quarter-century to bear on the problems that the London Conference failed to solve. And we would be very wise—I may add—to do this while the world is still riding the flood tide of prosperity instead of waiting for an international economic crisis to force our hand.

*Free nations ought to convene to see what can be done*

A conference such as I have suggested should ask whether there is need for a fundamental reform of the International Monetary Fund, or for some new device by which the liquidity of the international system can be expanded without continuously increasing foreign holdings of key currencies such as the dollar and the pound. Short of this, it might consider whether we need merely a better means for coordinating policies between key currency centers, particularly New York and London, and whether this should be done through the IMF.

Such a conference would do well to face up to the question whether European currencies have been stabilized at too low a level, leaving the dollar permanently over-valued. It has not escaped notice that the deficit in the United States balance of payments dates almost from the moment in 1949 when the pound sterling and other European currencies were devalued.

There are other questions:

Do we need coordination aimed not just at dealing with balance of payments strains or capital flight, but also at interest rates and monetary policies—so that one nation does not take counter-cyclical action to the detriment of others?

What do we do about the problem of trade liberalization? The United States has gone far toward liberalizing its trade policy *vis-a-vis* the rest of the world. Other nations, particularly some whose payments position now is stronger than ours, have not kept up. Discussion of commercial policy in all its aspects would be an important item on the agenda. Incidentally, this discussion should be concerned with Europe's liberalization not only toward United States goods but also toward Japanese goods.

Declining commodity prices and the consequent falling income of raw material producers at home and abroad pose still another problem.

By means of such a conference, we could guard against the possibility that deflation, rather than inflation, may be our major problem. We could examine carefully the adequacy of international monetary reserves and the possible need for new devices to economize on gold and to strengthen central banks and governments in the event of a liquidity crisis. We could face up to the fact that thus far the United States has acted both as pump-primer and stabilizer for the free world and that it is time to share this job with others.

I certainly do not wish to appear in the role of prophet of gloom. On the contrary, I am confident that the knowledge we have acquired and the strength we have built into the national economies of the free world will make it possible for us to deal with our problems without repeating the disastrous experiences of the past. I have great confidence in the ability of intelligent men to find a way out of any difficulties that present themselves. I fear only the very human tendency to keep applying yesterday's solutions to today's problems.

The policies of the past 15 years have succeeded brilliantly in restoring the productivity of war-torn Europe and Japan. They have helped to bring about the greatest and most widespread prosperity in history. Now the problem is no longer reconstruction and recovery. It is the seemingly less dramatic but, in fact, far more challenging question of economic stability, of making certain this hard-won prosperity endures. On the solution of this tough, stubborn problem will ride all the free world's hopes. We must bring to bear upon it the highest wisdom, imagination and generosity of spirit our age can command.

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Condensed from an address to the Copper and Brass Research Association.

# The Big Pension Fund

PENSION funds, at last, *are* accessible to the mortgage banker. Many problems must yet be faced and much hard work and effort is ahead, but a major breakthrough is in view.

Non-insured corporate pension funds which, since 1950, have grown more rapidly than any other type and which, currently, account for more than one-quarter of the assets in all public and private retirement programs, last year chalked up a dramatic \$3.2 billion increase*—and added substantially to their holdings in mortgages. State and local retirement funds which, likewise, have been piling up impressive financial holdings, last year put \$300 million into mortgages and, before 1960 is finished, may well add another \$400 million. Labor funds, too, have been stepping up their mortgage buying.

All in all, it would appear that the long holdout against buying mortgages is about at an end. A breakthrough must, in fact, be forthcoming; it is, indeed, overdue. On this point there is no dispute—for even the younger fund trustee, when speaking "off the record," will concede that mortgage investment by pension funds is an inevitable development of the times. But just how near it is—and to what extent it will be developed—this will depend, to a very great degree, on the individual performance of each and every mortgage banker in the country.

Many—and all-too-familiar, particularly to the mortgage banker who has attempted to tap the pension fund field and whose efforts have not yet met with success—are the reasons why mortgages, despite their high yield *and* liquidity, heretofore have not been used more extensively as a medium of investment by pension trustees. Basically, of course, the men who administer these funds—at least the older generations of fund trustees—are, traditionally, "securities-minded." This point, it will be recalled, was brought out in last month's article, but it is fundamental enough to bear repeating. These trustees, lacking experience in handling and evaluating mortgages, *are* familiar with bonds; they've worked with bonds for many years. It's a simple, easily handled one-man operation—and they see no reason to change.

Having been under no pressure to acquire mortgages in any large volume for their pension accounts, corporate trustees—except in rare exceptions—have not built up extensive mortgage departments staffed with trained and experienced mortgage personnel. Nor does there seem to be much disposition on the part of trustees to assume these additional operating costs and responsibility. They prefer to avoid the continuing overhead of an expensive mortgage organization during those periods, for example, when they are not active in the market. Too, they fear—because they are accustomed to "spot" purchases—that there will not always be a sufficient supply of mortgages for purchase on an "off the shelf" basis; and that because they can buy only when the net yield on government-backed mortgages is favorable to that of high grade bonds, they would be at a disadvantage against those institutional investors who purchase mortgages regularly.

There are other worries, as well—the need for legal clearance involving the different state "doing business" laws, the inevitable delinquencies and the losses in connection with non-reimbursed foreclosure expenses, the concern over possible criticism in the event that interest rates rise between the time of granting a commitment and ultimately closing the transaction.

The objection, the worry, the general concern on the part of the fund trustee is made in all sincerity—despite the fact that the mortgage industry *does have* the tools and the handling devices which for all practical purposes (particularly from the standpoint of home office work, costs and supervision) make the ownership of FHA and VA mortgages as safe and as simple as the ownership of stocks and bonds. The average fund trustee (there are exceptions to the rule, of course) when presented with these basic facts of today's mortgage banking operations will protest that there are, nevertheless, certain fiduciary responsibilities and powers which absolutely cannot be delegated—there must be, first of all, a certain background of knowledge; also, there are certain operational phases which only the principal can handle: fire losses, for example, the releasing of assumption of bondsmen, foreclosures, etc. These functions, the trustee will insist, must rest with the fiduciary. All of this, they point out, involves work and time and additional expense not en-

*Non-insured corporate pension fund assets, according to latest SEC figures to be released, rose in 1959 to a total of \$25.3 billion—an increase of \$3.2 billion over the 1958 figure of \$22.1 billion, quoted in these pages last month. Assets in *all* pension funds, last year, rose to \$95.3 billion.

# Break Through Just Ahead

countered when investing in bonds.

Very often, too, a fund trustee's concern with inflation—his desire to protect the purchasing power of the dollar—will lead him away from mortgages and to common stocks and other securities which can be expected to increase in value over the years, thus providing a better hedge against inflation than can a fixed-dollar investment. Quite obviously, in these instances, the trustee is overlooking the built-in liquidity feature of a mortgage—the yearly "run-off" to about 10 per cent of a portfolio, which means of course that a fund is then able to reinvest its money in current types of obligations and take advantage of current higher interest rates.

There are, of course, those trustees who will not permit inflation to play a part in determining their investment policy and concentrate, instead, primarily on the productivity of the fund—namely, its dividend yield. And yield—because a fund's basic aim, *always,* is to get the best competitive yield consistent with all other requirements—very often determines the extent of the delivery period. One trustee, for example, when queried on the subject, explained that while normally he prefers to work on an "immediate to 90-day delivery basis" he will—if the yield is particularly attractive—extend it to as much as six months; however, under routine circumstances, he cannot envision an advance commitment being extended beyond four months at the outside limit.

With today's pension fund market characterized as "a spot delivery market with relative immediate delivery required," the issue of delivery—

*It's coming, and it's probably coming faster than most mortgage bankers think because more has already been done to show pension fund trustees why and how they can invest in mortgages than the average originator appreciates. What were once hazards to be surmounted are no longer so hazardous; most of the barriers which trustees once believed closed the mortgage market to them have been removed. Now it becomes, more than anything else, a matter of education—but education of a special kind because buyers of investments for pension funds are among the most discriminating investors in the world. Last month the first of this two-part series of articles on opening the pension fund market to mortgages described the problems faced and related what a number of mortgage bankers have already done. This concluding article goes into other phases of this big challenge of the Sixties for originators of mortgages—this vast new investment market which can mean so much to the future of our industry.*

*By* **ROBERT J. BERAN**

***Associate Editor***

whether "immediate" *or* otherwise—remains fundamental to the entire problem and, in essence, a major stumbling block to greater mortgage investment by the funds.

In the minds of most pension fund purchasers, "immediate" delivery is today! Union funds, particularly, want to be able to purchase *on call.* They are, in fact, outspokenly critical of the average mortgage banker because, they say, "he is not capitalized to produce, he has no product for sale—no inventory, he cannot deliver large amounts of mortgages on call." As severe as this criticism might seem, it is not without foundation. Like it or not, today's mortgage banker must develop the concept of immediate delivery; he must adjust to the idea of carrying more uncommitted inventory than he has in the past, and he must take the risk of money rate gain or loss.

Of course, if a firm has a strong capital structure, it can keep mortgages on its own shelves. Where, however, a mortgage banker does not have enough capital structure to do this himself, he can employ warehousing facilities. While this approach will provide an available stock of mortgages for delivery when a fund calls for them, it is nevertheless a regrettable reality that most mortgage bankers aren't equipped to buy in one market and sell in another. Perhaps the simple solution — as one mortgage banker, for whom the question of "immediate" delivery has never been a problem, states it—is to "operate on the basis of maintaining a high inventory in times of favorable market conditions and a low inventory when the market is adverse."

Although forward commitments have comparatively little appeal to the trustees of pension funds (in view of their latitude in the investment spectrum)—and while it is true that funds will pay a higher price for immediate delivery loans — the blanket concept that unless a mortgage banker has a block of loans ready within his portfolio he can't sell a pension fund on mortgages as an investment medium is *not* true. The idea of an advance commitment is not unknown to a trustee; trustees are, in fact, accustomed to making commitments — but they expect them to be firm and to be taken up. So very often, when a trustee commits for mortgages, other investments are sold and placed in temporary securities awaiting the purchase of these mortgages. And the mortgage banker, on his part, must be ready to deliver at the time specified.

A commitment must be regarded as a joint agreement between two responsible parties; it must not be looked upon as a hunting license for the mortgage banker or for the builder. No mortgage banker should offer for delivery more loans than he is certain he can produce—and he must, if necessary, ride herd on his builder.

One mortgage banker who, in working with a state fund, has over a long period of time sold several million dollars in FHA mortgages through one particular bank, reports that this bank has always been perfectly willing to issue commitments—not, however, the usual advance commitment based on a builder's promise to come through, but a commitment, instead, based on the borrower's application. This approach allows a lapse of three or four months before delivery is due. Of course, however, the commitment is made at a specific price and this price holds good until the loan is closed and delivered.

In selling this fund, initially, the mortgage banker recalls, his main problem was in convincing the bank, as trustee, that mortgages would be a suitable medium of investment for the particular fund which it was managing. The fund itself—the principal —was interested and willing; the trustee, originally, was reluctant but, eventually, came around.

*Trustees can be more of a problem than the funds*

There are many such instances—for, at this stage of the game, there are still all too few trustees who, voluntarily, will move into mortgages with their pension funds. Very often it is the principal who must "push" the trustee of his own fund into mortgages—as in the case of one principal who, with over $60 million in pension plans, decided to make some of its resources available for mortgages, then found it had been an easier decision to make than to execute. The principal took it up with his trustee, the trustee promised to study the problem but didn't offer much hope. The principal persisted, the pressure grew intense, the issue finally was resolved by a compromise—principal and trustee agreed on a half-million in Fannie Maes.

In another similar situation—and this is a particularly interesting case history—a bank, as trustee, entered the mortgage investment field at the specific request of its principal. Prior to then, strictly as a matter of internal policy, it had never dealt in mortgages. It entered the field reluctantly —but the experience has proved to be a happy one.

Having once determined upon a policy of purchasing mortgages in widely diversified areas of the country—wherever, in fact, its plants are located—the particular corporate fund involved assigned specific geographical areas to its various trustees and requested these trustees to proceed. Accordingly, the bank, whose case history this is, set up the mechanics necessary to undertake a mortgage investment program. In areas where it has no particular contacts, the trustee has signed with ICM to provide its mortgages; in all other areas it works through various mortgage bankers with whom it has established lines of credit and other financial contacts.

In this particular operation, the bank's trust department makes all investment decisions and then the real estate department buys as directed. Purchases are handled in block lots— a $500 thousand order, made up of a number of different mortgages, is carried on the trustee's ledgers as one $500 thousand investment. No attempt is made to credit loans individually; the servicing agents handle the individual records.

The trustee, however, does check personally on the properties involved and does accept or reject each mortgage on an individual basis. Refusing to be exposed over 55 per cent and requiring more than 1,000 square feet of living space, the trustee insists on seeing the specific product being considered in each instance—or, in his own words, "We like to know what we are getting."

Setting up operations, the trustee admits, were painful, but it feels that future operations will be easier; and it foresees, actually, ever more satisfactory yields. Its yield, incidentally, is not as high as many trustees insist upon but the fund is satisfied, since the specific areas assigned to the trustee are recognizably low-yield areas.

In explaining its entrance into the mortgage field, this trustee points out that it is merely a matter of good business to cooperate with its principal. It emphasizes, in fact, that any legitimate request made by a principal should be looked at carefully, and where there is no good reason for it *not* to be honored, other than that company policy has, in the past, been against it—then, by all means, it behooves the trustee to cooperate.

Trustees, in expressing their views on the future potential of mortgage investment by pension funds, very often make a point of singling out union funds as a strong directionary force in the entire movement. Public pressure, through unions—these trustees feel — ultimately will force the flow of fund money into low-cost housing. There is, already, a definite trend along these lines and it will accelerate.

Union funds, most decidedly, do

represent an impressive segment of the vast, overall reservoir of pension fund capital. The AFL-CIO workers' health and welfare funds are among the largest in the country at the present time. Ironically enough, many of the building trades unions (which, one might think, would have the most at stake) are dragging their feet in the investing of funds into mortgages. Unions in other fields, however, are becoming progressively more active in pumping money into mortgages.

The International Ladies Garment Workers' Union, for example—with reserves of all its funds estimated at the end of 1959 at approximately $350 million—has, today, over $62 million invested in Federally insured or guaranteed mortgages, covering almost 5,000 housing units. In addition, it is sponsoring a 1,668 unit cooperative development on which it has financed a $15 million mortgage from its various funds. A second project in the Chelsea area of New York City, providing some 2,520 units, is being backed by the union to the extent of another $20 million. And it has some $70 million in armed services (Capeharts) construction mortgages. Upon the acquisition of all pending mortgages, the ILGWU estimates that its investments in mortgages will reach a total of approximately $100 million.

Another union, the International Brotherhood of Electrical Workers, has over $80 million invested in FHA and VA mortgages, in more than 1,200 loans around the country—and a total, *overall,* of at least $120 million. Its mortgage investment program, upon which it embarked some five years ago, is unique among building trades unions—unique because only one other among the building trades groups, the IBEW's New York Local No. 3, working with electrical contractors, has made any kind of sizeable investment in housing: a 2,225-unit project in New York City.

A recent survey, in Chicago, of six representative labor-management pension and welfare funds, with more than $38 million in assets, revealed that none has investments in home loans — either government-insured or conventional.

According to one of the IBEW's servicing agents in Chicago, that union has in the Chicago area some 325 FHA and VA insured loans, for a total of $5 million; and at least another 150 loans in process. In addition to these government-backed mortgages, IBEW holds another $20 million in guaranteed housing loans for military personnel and $5 million in interim financing for one of the city's vast redevelopment projects.

And, in California, just recently—the Northern California Carpenters Pension Fund has purchased $400,000 worth of FHA and VA mortgages, paying the going FNMA purchase price of $95\frac{1}{2}$ per cent of par. It hopes ultimately, in the next 15 to 17 years perhaps, to build a mortgage portfolio of at least $25 million.

*The union funds represent a great investment market*

Unions, as a rule, are guided in their basic investment policies by two concepts: maximum safety of principal and the avoidance of speculative activities. And, generally, they prefer to operate much as a life insurance company does—they prefer to manage the investment of their funds themselves, to hand pick and to deal directly with their loan correspondents. They feel that they can, in this way, achieve greater diversification and that the saving in operational expenses can, thus, be directed to the benefit of the union members. For unions, basically, are more interested in helping their own people move ahead in life—through creating better homes, and by providing employment for building tradesmen who would construct the new housing thus made possible—than they are, necessarily, in high yield.

The International Ladies Garment Workers' Union, as an example, was in no way particularly equipped to administer a mortgage investment program when it first went into it at the end of 1956. But, as its controller, Alexander Bookstaver—in a speech before the MBA Southern Mortgage Conference at Jacksonville, last April—expressed it, "The social awareness of our organization to provide decent housing for our citizens and at the same time more fully perform our fiduciary duties as trustees, earn a more adequate interest return on investments and, at the same time, maintain our high standards of investment quality, made us explore all the potentials for the creation of such a program."

There is one fly in the ointment, however. While pension funds in general do not require union labor on the houses in which they invest money, union funds *do* invoke this stipulation. Quite obviously, from the mortgage man's point of view, this creates complications. In states where the entire state is "open shop"—a state, to single out but one possibility, such as Tennessee — this restriction automatically precludes the possibility of mortgage investments by union funds.

Many mortgage bankers, of course, have built-up very fine, smoothly functioning investor-correspondent relationships with the union funds. One particularly, whose experience in dealing with union funds dates back to 1934, is servicing today approximately $65 million in pension funds. And, of this figure, some $50 million is for one fund alone.

For many years the only correspondent of this one union fund (today, however, the fund divides its mortgage investing between 13 or 14 different correspondents), the mortgage banker has always worked on a forward allocation basis; and he has always been able to produce, in any one year, more than the amount called for in his allocation. In the earlier years, he did adjust his servicing procedures to suit the particular requirements of the union. Now, however, he is able to operate on a standard servicing basis.

Usually, in selling to a union fund it is sound enough policy to work through the union's treasurer, as a point of contact—for it is he who does the buying. But, this mortgage banker offers the advice that "to sell a union fund, it is wisest to contact first and to work through the fund's investment counsel." He points out the ever present possibility that a fund will require certain legal recourse before being permitted to invest in mortgages; if so, the investment counsel logically enough is the person to work on it. He is the one to "sell" on the idea that *a* particular mortgage loan is *the* one for him.

"If a union has the authority to invest in mortgages," he emphasizes, "it is open to being sold. However," he adds, "a union fund's investment latitude is often restricted by its constitution and only executive action on the union's part can pry these funds loose.

"Because it is important for a union

—for any type of fund, of course—to keep its money invested so that it will be working for it at all times, a fund must play its investment policy to get money in and out readily. As a result, it is imperative that a mortgage banker keep his investor's account—regardless of type of fund—as liquid as if dealing in stocks."

Trustees who fear the problems of servicing mortgages have a wide choice of new techniques, new financial instruments, new plans—set forth by both lending groups and individual mortgage companies. Each is based on a slightly different approach, each might emphasize differently the varying aspects of the investment operation, but each is aimed at the same objective—to make mortgages more suited to pension fund fiscal requirements. Of the many variations, at least two of the newest warrant discussion here.

In Houston, Texas, the T. J. Bettes Company—among the most active and the most experienced of pension fund servicers—has, after trying and using many different approaches, come up with a brand new one. Field-tested for more than a year, this new plan is calculated to sell the pension funds of the country, more forcefully than ever before, on the effectiveness and the "know-how" of the Bettes approach to providing mortgage investment service. And it will, its originators feel, do just that.

It's a simple plan. Under it, the Bettes Company—dealing directly, in each case, with the fund—agrees, in effect, to handle each mortgage as completely as if it were owned by Bettes itself, bringing to it the same detailed care and attention as if it *were* its own. The plan's purchasing and servicing agreement is unique, in that while it calls for everything normal to any standard servicing agreement, it calls too for foreclosure—without any consulting of the investor—when in the judgment of the Bettes Company, such action is required. Likewise, Bettes agrees to repurchase from the investor any mortgage it has sold to it, at any time it is shown not to meet the specifications laid out in the purchase agreement.

Under the terms of this plan, the Bettes Company keeps all papers which traditionally are shipped to the investor—except for the basic security instruments and the credit report. These are kept on file for spot checking, if desired.

When a fund gives an order—for any specified amount in any given area—Bettes assigns the notes and ships the requisite security instruments to the fund in an attractively designed folder which presents on its cover a detailed listing of the mortgage documents included inside, as well as the attorney's certification, etc. It's an eye-catching combination of graphic appeal and investor expediency, for it tells him at a glance its contents.

A lawyer, local to the area where the Bettes shipping office is, is agreed upon in advance—by Bettes and the

*(Continued on page 48)*

Mortgage Documents Purchased Through

**Mortgage Investment Service For Trusteed Funds**

The following security and other instruments are enclosed as indicated:

( ✓ ) FHA insured note and signed copy of FHA commitment
or
(   ) VA note and Guaranty Certificate

( ✓ ) Deed of Trust

( ✓ ) Title insurance policy having no objectional exceptions

( ✓ ) Survey of mortgaged premises

( ✓ ) Hazard insurance certificate

( ✓ ) Photograph of residence

( ✓ ) Mortgagors credit report

We have complied with all requirements of the Purchasing and Servicing Agreement.

Ross C. Fox
Ross C. Fox, Vice President
T. J. Bettes Company

Mortgage Owner

The Granite National Bank of California, Trustee

Mortgagor: Axxxxn, Mxxxl, E.

FHA or ~~VA~~ No 49-446440

Legal Description:
Lot 6 Blk 126
Section 2
Wilson Park Addition
City of Midland, Midland Co. Tex.

ATTORNEY'S CERTIFICATION

After examination of the above described documents, it is my opinion that they are correctly drawn and executed and you are the legal owner and holder of the first mortgage.

DATED 24 March 19 60

John R. Smart
John R. Smart
(Houston, Los Angeles or San Francisco Attorney approved by you)

| Date Committed | Date Purchased | Int. Rate | % Of Par | Loan Amount Original | Loan Amount Purchased |
|---|---|---|---|---|---|
| 2/25/60 | 4/1/60 | | | $13,050.00 | $12,097.07 |

**As part of the Bettes Company's approach to tapping the trusteed pension funds, an attractively designed cover is added to the folder in which it delivers mortgage documents to its pension fund investors. This touch of "window dressing" offers eye appeal and tells the investor at a glance its contents.**

# *President's Page*

## THE SALE OF FHA LOANS TO "INDIVIDUALS AND OTHERS"

THE recent approval by FHA Commissioner Julian Zimmerman of procedures for the sale of FHA loans to investors other than approved mortgagees opens up an additional source of money for home mortgages that potentially is very large and very important to all industries allied to the home building field.

It is a major break-through—for mortgage bankers, builders, Realtors, and those investors in the category of "individuals and others." In time, it will also be of some help to our "regular investors" who, more and more lately, have been unable to allocate as much mortgage money as they would like, to their correspondents in particular and to the home mortgage market in general.

B. B. Bass

But don't expect these "individuals and others" to be standing in line to buy FHA loans. It will be slow going at first and will probably take a real educational and selling job before it can even approach its potential—just as has been true with pension funds. But incidentally, pension fund purchases are beginning to "snowball" as you will learn at our annual Convention.

Also, it will be considerably more expensive and time-consuming to sell to and service for individuals and the small trusteed funds. It is, therefore, unlikely that there will be much activity in this area *when* our regular investors really want mortgages at reasonably competitive yields—and have the money to buy them.

*But* when they do not really want mortgages or do not have the money to buy them in volume, and thus necessarily decrease quotas and increase qualification requirements to cut down volume, then—

(1). The resulting higher yields and ample supply of good FHA loans will be particularly attractive to the individual and the small fund investor, and

(2). Mortgage bankers will then have the time, incentive, and urgency to locate, cultivate, and "captivate" such investors.

In addition to the actual new money obtained, there will be fringe benefits including the opportunity to get the real story of the great benefits of the FHA program and information on the services of each mortgage banking organization directly to the most influential and responsible people in each community who, quite naturally, will be excellent prospects for the purchase of FHA loans.

The important thing for us to do now is to get ready—to study the program, prepare our forms, methods, and procedures in detail, develop a logical list of prospects, then get our feet wet in the program by testing the market and our methods. A new sub-committee within the FHA Committee has been appointed to study the sale of FHA loans to individuals. Robert Wilson, the energetic and outstanding president of Percy Wilson Mortgage and Finance Corporation of Chicago, is the Sub-committee Chairman and will carry over next year under Lon Worth Crow (the incoming FHA Committee Chairman). But don't wait for "guidance" from this Committee. Most of the things we need to do, we can and should do ourselves.

"Everyone" seems to agree that we must attract more real savings in this country into fixed income investments in order to finance our expected economic growth without inflation. This new tool we have is an excellent one to help do just that, and at the same time we will be attracting new savings to the home mortgage market. But, in final analysis, it is just a tool. Like the best golf club made, someone must swing it. And it takes practice, skill, and effort to do it right.

Let's start practicing! It looks like a fascinating game.

B B Bass —
PRESIDENT

# At MBA's Chicago Convention October 3-6, You'll Hear . . .

## "The City on Trial"

One of the nation's greatest economic problems is the plight of the City, the preservation of its central area, the halt of blight and a hundred other complex developments which threaten our urban centers. At the Chicago Convention, the City goes on trial. **James W. Rouse,** former president of ACTION, will sit as judge and before him and a jury of 12 will come **Mayor Richard Lee** of New Haven, **Julian H. Levi,** director of Chicago's Southeast Commission, **David M. Walker,** Commissioner of the Urban Renewal Administration in HHFA—all to testify for and against the City and its failures. **Samuel E. Neel,** MBA General Counsel, will be the trial examiner. The city has been indicted and is on trial—and on trial in a way to give it dramatic impact with all the "props" of a courtroom. It will be an important and vital experience for every mortgage banker because the subject is second to none in importance for him.


James Rouse


Mayor Lee


Julian H. Levi


David Walker


Samuel Neel

## "Economic Growth— How and Why"

Are we falling behind in our economic growth, are we becoming a second rate power—where, how and why? That's a subject for another appealing MBA Convention session with **Bruce Palmer,** president of Mutual Benefit Life Insurance Company, speaking for the investment and savings viewpoint, **Dr. Sylvester Petro,** Professor of Law at New York University, speaking on the labor aspect and **Allen Wallace,** Dean of the Graduate School of Business, University of Chicago, and Vice Chairman of the Committee for Economic Growth Without Inflation, speaking for government. President Bass will conduct it. Don't miss this highly significant discussion.


Bruce Palmer


Sylvester Petro


B. B. Bass

## "The World We Live In"

Problems and challenges facing people today have a way of being interrelated with many other problems affecting all people. At the Convention members will hear discussions of some of the most vital matters confronting us . . . **Dr. Norman Vincent Peale** will speak on "Techniques of Successful Living" . . . **Dr. Kenneth McFarland,** educational consultant to General Motors Corp. will speak on another vital topic. There will be many others in this appraisal of "The World We Live In."

## "Housing and Mortgages"

After we've tried the City, listened to the arguments about our future Economic Growth and heard about the world we live in, we'll turn to familiar ground—Housing and Mortgages. It's a big panel discussion about every aspect of future housing and mortgage financing. You'll hear viewpoints from **Richard G. Hughes,** builder and former NAHB president . . . **John deLaittre,** president, Farmers and Mechanics Savings Bank, Minneapolis, and former NAMSB president . . . **Charles A. Wellman** of the big West Coast Glendale Savings and Loan Association . . . FHA Commissioner **Julian H. Zimmerman** . . . FNMA President **J. Stanley Baughman** . . . VA Loan Guaranty Services Administrator **Philip N. Brownstein** . . . **Dr. James J. O'Leary** of the Life Insurance Association of America . . . **Philip M. Klutznick,** builder, developer, and former PHA commissioner . . . and **Dr. Robert C. Turner,** Professor of Business Administration, Indiana University . . . and HHFA Administrator **Norman Mason.**

R. L. Hughes

John deLaittre

Chas. Wellman

Norman Mason

Julian Zimmerman

J. S. Baughman

Philip Brownstein

J. J. O'Leary

Philip Klutznick

Dr. R. C. Turner

# Your Best 1960 Investment Is MBA's Chicago Convention

# How FHA Looks at Q

LENDERS operating in FHA programs, particularly those interested in the secondary mortgage market, generally believe in and rely on the soundness of FHA underwriting policies and procedures controlling and evaluating the quality of the physical security of the typical insured mortgage. This fact was emphasized during the many celebrations of FHA's 25th Anniversary in 1959. It was often repeated that we had set new and higher standards in the home building industry, and that our participation had beneficially affected the quality of all new construction including that financed without FHA mortgage insurance.

But what about those lenders who only use certain FHA programs and are wary of others—or who do not use FHA at all? Is concern as to the quality of construction a consideration in such cases? I remember that it was in the case of the now defunct Title I, Section 8, Low Cost Housing Program. I also remember that the quality of veterans' housing built under FHA inspection just after the war was often questioned.

Because of these recollections regarding past FHA programs, I am going to attempt to set forth herein a frank discussion of our practices and problems, past, present and future. It is my hope that clarification of FHA aims and objectives in regard to the control and evaluation of the physical mortgage security will stimulate and broaden lender interest in our programs.

In 1938 when I first came with FHA our minimum property standards were of a very limited nature as compared with those of today. Likewise our cost data used for appraisal purposes lacked the precision required today. Its principal deficiency was that it did not attempt to make distinctions between like items of different quality. A bathroom cost "X" dollars regardless of the style or quality of fixtures. A heating system was acceptable regardless of the design and manner of installation. These observations are not intended as criticism of staff work in the early history of FHA—far from it. Actually, the cost data system and the property standards in that day and time were advanced techniques.

However, two related things soon became apparent. First, increasing home owner complaints indicated the necessity to expand and raise the property standards. Second, to make possible builder participation under higher standards the cost data needed to be amplified to fully reflect quality in our appraisals, cost being an upper limit of value generally attained in typical new construction submissions.

By 1941 new expanded property standards and cost data were in effect and being successfully applied. The cost data system developed at that time is of particular interest and is basically the same we have in use today. It provided a rapid method of estimating which at the same time exhibited sufficient accuracy to differentiate between makes and models of mechanical equipment and between the principal materials and methods of construction. To complete the objective of truly reflecting the character of the physical improvements in our appraisals an adjustment to cost was provided for the purpose of reflecting quality of workmanship.

Unfortunately, a reversal of these things took place during the years immediately following the war. Because of the great pressure to step up the rate of housing production and because of the limited supplies of essential materials, it became necessary to set aside the minimum property standards and accept materials, equipment, and construction which by today's standards would be considered inferior. At the same time the well known spiral of inflation was exhibiting itself in construction costs. This led FHA to adopt a "downward pressure" cost policy. Under this, cost estimates were pegged at levels substantially below actual costs being experienced by typical efficient builders. These things combined to militate against quality construction and to detract from the good reputation built up by FHA during the pre-war era. Although conditions began to return to normal by 1950, the memory of the past may linger on in the minds of some.

Moving from history into the realities of the present we come to the year 1956 when wheels were set in motion for production of a completely revised and modernized compilation of minimum property standards for home construction. This was completed and put into effect in July 1959. Since the job was largely finished before I moved into this field of responsibility, I feel free to say that our "Minimum Property Standards" is in my opinion the outstanding handbook on home construction and is a must for the library of all architects

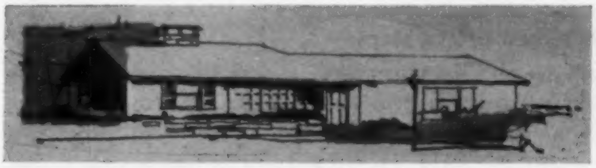
t Quality Construction

and builders active in this field.

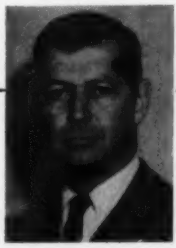
Our present MPS book is used for the regular home mortgage program under Section 203 (b), and with some modifications is also applied to low cost housing under Section 221 and 203(i). I would like to briefly explain what we mean by "minimum standards" in these programs. In regard to the basic components of a house such as foundations, floor, roof, and sidewall construction, as well as mechanical equipment, "minimum" means that which will give the typical American home owner the service and comfort he has learned to expect. This is equally true in both low cost housing and the regular home program.

FHA standards for low cost housing differ from those for regular home construction in that we may accept less storage space, omission of certain items of interior finish and less costly lot improvements. In certain cases smaller size rooms may also be accepted. This lowering of standards is to make it possible to provide homes for lower income groups. However, it must be borne in mind that the basic structure, and the plumbing, heating, and electrical equipment must be just as durable as that required for regular home construction under Section 203(b).

Remembering that the top mortgage for an FHA home is now $22,500 some might conclude from the foregoing that our MPS book does not cover the higher cost FHA homes. This is not true. Review of the book will reveal standards for many items, inclusion of which is optional. For example, we do not require air conditioning systems, but if installed a



*Better housing, more quality construction, a better job of providing shelter are objectives much sought after; and as the years go by with a substantial addition annually to our housing inventory, how well does the nation achieve these goals? Answer: not nearly as well as we should but better than many people think. It is to FHA's credit that it has always placed good construction high on its goals and no influence has been more important than that of FHA. In fact, without FHA and what it has done, it isn't pleasant to speculate on what might have been the quality of what we built during the past two decades. Just how FHA thinks, and what it is seeking to do, is spelled out by Mr. Mason here.*



**By W. BEVERLY MASON, JR.**

***FHA Assistant Commissioner***
***For Technical Standards***

minimum standard must be equalled or exceeded. Likewise, we do not require the more expensive types of floor and roof coverings, but if installed they must be up to our minimum standards.

Two years ago we made an important change in our attitude toward quality construction in requiring our Insuring Offices to encourage inclusion of the more expensive higher quality optional materials and equipment when appropriate to the class of

*(Continued on page 52)*

# More buyers qualify for
# when houses are insulated to

When full Fiberglas* Insulation is used, the homeowner saves on monthly heating and cooling costs. Thus, because full Fiberglas Insulation reduces monthly housing expense, a prospect with lower effective monthly income may now qualify for an FHA-insured mortgage. This means *more* buyers can qualify for such homes at any price level.

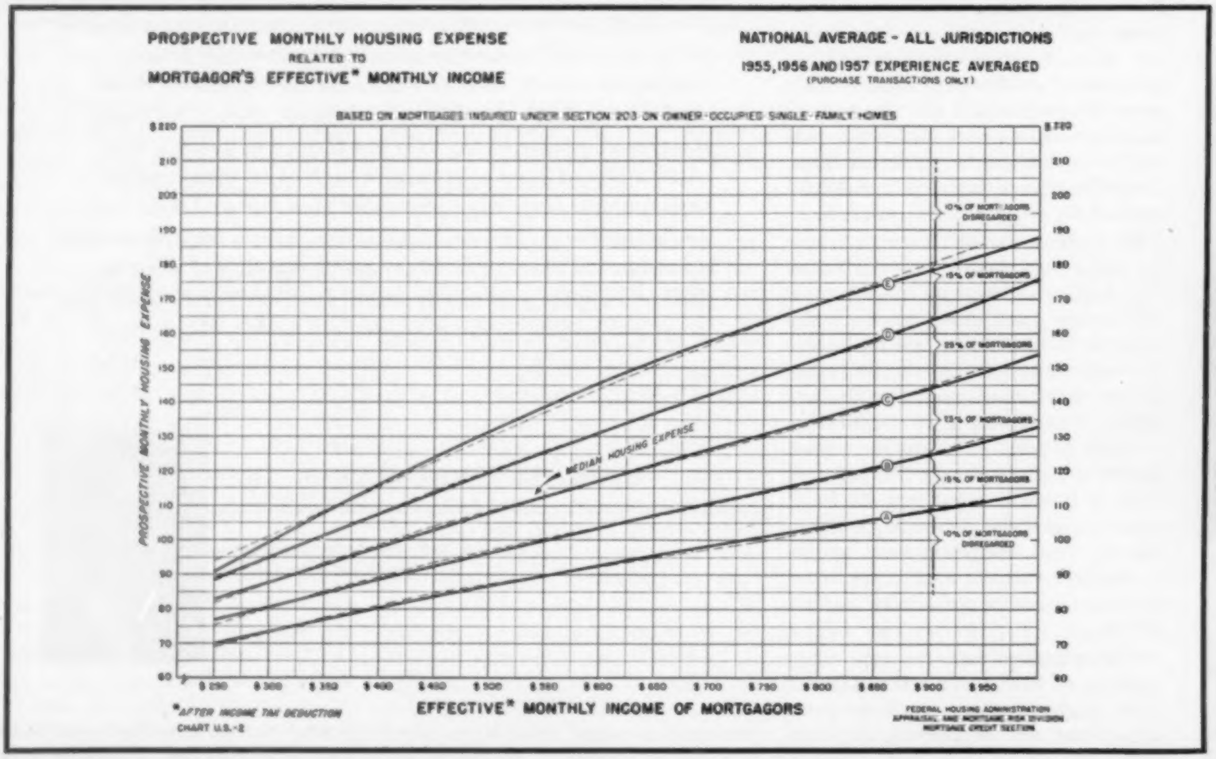
**Make sure your builder-customers take these two simple steps:**

1. Indicate on FHA Form 2005, Description of Materials, on page 4, item 26, that the insulation is more than FHA minimum requirements.
2. Prominently show, on the heating system layout, the total calculated heat loss of the dwelling with full insulation.

In line with its announced policy of encouraging the use of money-saving quality products,

**FHA will then:**

1. Give full recognition for the added insulation on Form 2014.
2. Estimate the annual cost of heating (Item 15 on Form 2017) to reflect full savings resulting from extra insulation which will reduce the estimate of monthly housing expense.
3. Determine the reduction in net income requirements from a Housing Expense Chart (sample below) which shows how savings in monthly housing expense reduce net income requirements.




"Mortgagor's Effective Monthly Income: The estimate of the amount of dependable income (after deduction of Federal Income Tax) that is likely to prevail through the first one-third of the mortgage terms." "Prospective Monthly Housing Expense: This includes . . . monthly payments to principal and interest . . . FHA's estimated cost of maintenance and repair, heating, air conditioning, and other utility costs."—from FHA 136821-P, "The Housing Expense Chart."

# FHA-insured mortgages

# "Comfort-Conditioned" standards

A letter dated *January 1960* to all FHA Field Office Directors from Deputy Commissioner C. B. Sweet will assist in their properly estimating operating expense. This is important because overestimating can exclude a significant number of prospects. He states:

"It is particularly important to recognize the effect which . . . insulation . . . and other construction features may have on annual heating and cooling costs.

"Builders should be encouraged to take advantage of this to reduce total monthly housing expense.

"The addition of insulation alone over and above the FHA minimum can produce (these) results . . ."

Typical savings and lower income requirements for a selection of cities are shown at the right. →


**3 years: 2000 builders, 150,000 homes**

The Comfort-Conditioned Home has been the most successful home-selling program since World War II. It has attracted thousands of home-buyers because it offers a house that has been planned and built as a sound, long-range investment; a home with comfort, convenience and operating economy built in for years ahead. For additional information write to: Owens-Corning Fiberglas Corporation, Dept. 230-H, National Bank Bldg., Toledo 1, Ohio.

**EXAMPLES OF APPROXIMATE SAVINGS AND LOWER INCOME REQUIREMENTS BY CITIES**

| City | Estimated Annual Heating Operating Savings in $ | Estimated Amount ($) by which Annual Gross Income can be reduced to qualify |
|---|---|---|
| Albany | 63 | 490 |
| Baltimore | 44 | 360 |
| Boise, Idaho | 56 | 480 |
| Boston | 93 | 1,240 |
| Buffalo | 47 | 410 |
| Chicago | 54 | 540 |
| Cincinnati | 23 | 190 |
| Cleveland | 31 | 250 |
| Columbus | 33 | 370 |
| Des Moines | 31 | 390 |
| Detroit | 56 | 480 |
| Grand Rapids | 60 | 490 |
| Hartford | 96 | 900 |
| Indianapolis | 34 | 320 |
| Kansas City | 22 | 210 |
| Milwaukee | 63 | 580 |
| Minneapolis | 50 | 330 |
| New York (Jamaica) | 55 | 440 |
| Omaha | 38 | 440 |
| Philadelphia | 45 | 510 |
| Pittsburgh | 26 | 150 |
| Portland, Oregon | 28 | 130 |
| Richmond | 26 | 140 |
| Salt Lake City | 26 | 240 |
| Seattle | 31 | 210 |
| Spokane | 61 | 640 |
| Springfield, Ill. | 30 | 350 |
| St. Louis | 29 | 240 |
| Washington, D. C. | 48 | 320 |

**Note: Figures in table are based on these Conditions:**

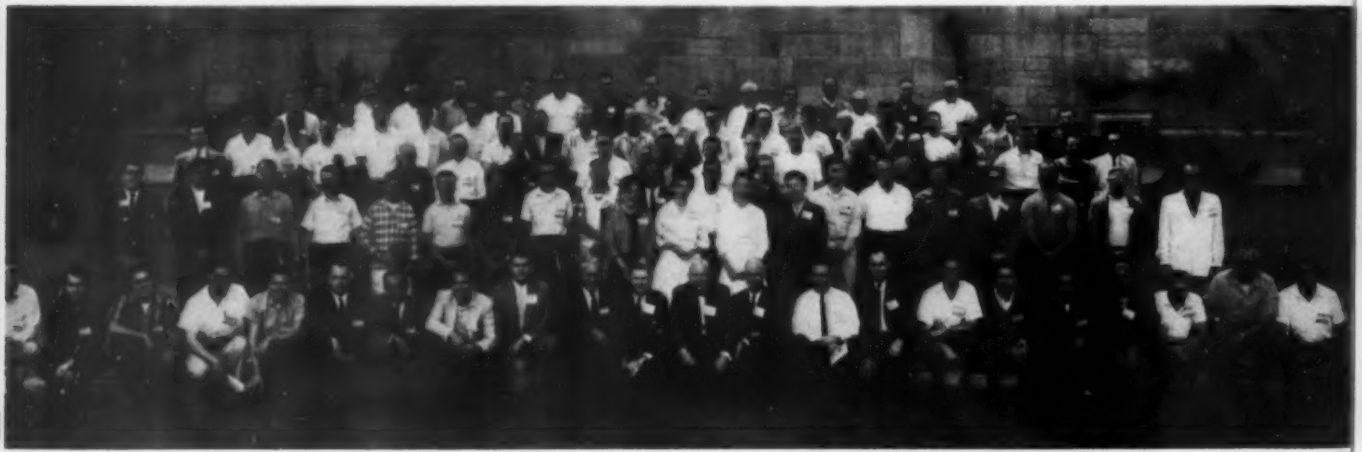
1. 30′ x 40′ ranch house over vented crawl space.
2. Windows and doors 20% of gross wall area.
3. Comparison made between 40 Btuh/sq. ft. heat loss in +20F. and warmer winter design temperature areas; 50 Btuh/sq. ft. in colder areas and 6″ Fiberglas in ceilings, 3″ in walls and floors.
4. Reduction in required income estimated from Median Housing Expense line on appropriate chart for each city.
5. Mortgagor's effective monthly income taken as $450.
6. The added cost of the extra insulation at 5¾% interest on a 20-year mortgage was taken into account in computing the above figures.

OWENS-CORNING
FIBERGLAS

*T-M. (Reg. U.S. Pat. Off.) O-C.F.Corp.

# The Students of the 1960 Classes at Northwestern

Anyone seeking the answer as to what is the future of mortgage banking might well be referred to the three photographs on this page. Since people are the principal ingredient of mortgage banking—and *principal* in a far greater sense than in almost any industry—these are the people who will be directing the industry tomorrow. They are the hope of the future, the brains of the business tomorrow—but it must be added that many of them are already well established and occupy important posts in the industry.



From top to bottom the three photos are of the School of Mortgage Banking 1960 sessions at Northwestern University, Courses I, II and III.

For Course I, there were 137 students from 71 cities in 32 states, Canada, Puerto Rico and the District of Columbia.

For Course II there were 93 students from 59 cities in 27 states and the District of Columbia.

For Course III there were 120 students from 71 cities in 28 states, the District of Columbia, Canada and Puerto Rico.

The 1960 graduating class numbered 120 which makes a total of 521 graduated from the School.

# 1960 GRADUATES
## SCHOOL OF MORTGAGE BANKING
### NORTHWESTERN UNIVERSITY

A. N. Abernathy, The National Life & Accident Insurance Company, Dallas.

Alexander M. Allison, Queens County Savings Bank, New York.

Frederick R. Barrett, McCaughan Mortgage Company, Inc., Coral Gables, Fla.

Ronald E. Batterham, Johnson Mortgage Company, Decatur, Ill.

Thomas R. Bazzel, Georgia Securities Investment Corp., Atlanta.

Donald R. Becker, Dayton Mortgage Company, Dayton, Ohio.

Frank D. Bisbee, Jr., Bisbee-Baldwin Corporation, Jacksonville, Fla.

Edward N. Bonner, Fickling and Walker, Inc., Macon, Ga.

Robert Burger, American Mortgage Services, Long Beach.

Wes Callaway, Jr., South Coast Mortgage Co., Beaumont, Texas.

V. J. Carnevale, Bank of America NT & SA, Los Angeles.

Owen T. Carroll, Weaver Bros., Inc. of Maryland, Baltimore.

W. B. Case, T. J. Bettes Company, Little Rock.

Leslie G. Cheshire, American Irving Savings Bank, New York.

Arthur M. Christie, Weaver Bros., Inc., Washington, D. C.

Frederick H. Clapp, Clapp-Thomssen Company, St. Paul.

Robert S. Clark, The City Savings Bank of Brooklyn, Brooklyn.

Raymond P. Cody, Colorado National Bank of Denver, Denver.

Charles R. Colwell, Ralph C. Sutro Co., Los Angeles.

Raymond F. Cooper, Jr., Morrison and Morrison, Inc., Denver.

William S. Corish, Old Dominion Bank, Arlington, Va.

A. J. Cornett, Jr., T. J. Bettes Company, Houston.

James P. Cunningham, McMillan Mortgage Co., Los Angeles.

Owen S. Davies, Palomar Mortgage Company, San Diego.

Robert E. Derrington, Mortgage Investments Co., Greeley, Colo.

R. E. Dugdale, The State Life Insurance Company, Indianapolis.

James S. Eckels, Western Mortgage Loan Corporation, Ogden, Utah.

Joseph F. Fahey, Jr., National Bank & Trust Co. of Fairfield County, Stamford, Conn.

Reese G. Jones, The Summit Mortgage Company, Akron.

Charles L. Kendrick, Percy H. Goodwin Company, San Diego.

Robert B. King, New York Life Insurance Company, Atlanta.

Allen M. Kinghorn, Kinghorn, Driver & Co., Houston.

Robert R. Kirkpatrick, The Mutual Benefit Life Insurance Company, Newark.

Paul J. Laskoski, W. A. Clarke Mortgage Co., Philadelphia.

James C. Latta, Frederick W. Berens, Inc., Washington, D. C.

Farnham M. Laux, Standard Mortgage Corporation, New Orleans.

George W. Law, Stockton, Whatley, Davin & Company, Jacksonville, Fla.

William A. Leed, The Bowery Savings Bank, New York.

David K. Lewis, First Mortgage Corporation of Cleveland, Cleveland.

John R. Libby, American Mortgage & Trust Company, San Antonio.

Colleen Lowery, North American Mortgage Corporation, St. Petersburg, Fla.

William P. Lueth, W. L. Pfeiffer Co., Inc., New York.

Emanuel E. Machacek, The Knutson Co., Minneapolis.

Donald W. MacLeod, New York Life Insurance Company, New York.

Laurens R. Massey, Percy Galbreath & Son, Inc., Memphis.

Allen C. McConnell, Central Mortgage Co., Philadelphia.

John H. Melzer, The First National Bank of Chicago, Chicago.

Julio Wiscovitch Mendoza, Department of the Treasury, San Juan, Puerto Rico.

Robert D. Miller, Mortgage Investments Co., Denver.

William C. Mitchum, The National Life & Accident Insurance Company, Nashville.

H. Robert Nissley, W. A. Clarke Mortgage Co., Harrisburg, Penn.

James M. O'Flynn, Harry S. Surkamp Investment Company, St. Louis.

Richard G. Oller, Mortgage Bankers Association of America, Chicago.

Donald R. Olson, Kassler & Co., Denver.

James G. Peel, The Greater New York Savings Bank, Brooklyn.

Homer H. Purdy, Farmers and Merchants National Bank, Santa Cruz, Calif.

William J. Quinn, The Home Life Insurance Company of America, Philadelphia.

Bert Ramas, McElvain Mortgage Co., Chicago.

Robert B. Rhinehart, Bank of America NT & SA, Stanford, Calif.

James V. Rice, Thomas & Hill, Inc., Cincinnati.

Franklin D. Richards, Jr., Richards-Woodbury Mortgage Corporation, Salt Lake City.

W. Earoll Roebuck, Jr., Anderson & Carr, Inc., West Palm Beach, Fla.

Robert R. Root, Western Securities Company, Omaha.

Robert L. Rosenaur, Peninsula Mortgage Company, San Carlos, Calif.

David E. Rosenlund, Germantown Fire Insurance Company, Chicago.

Howard M. Russell, Louisiana Fire Insurance Company, Shreveport.

H. P. Russelle, Commonwealth, Inc., Portland, Ore.

Charles E. Sayres, Jr., Metropolitan Life Insurance Company, Charlotte.

Russell P. Schauer, New York Life Insurance Company, Charlotte.

Clement E. Schirtzinger, The Equitable Mortgage Company, Dayton.

Alex E. Schneiderman, Lawrence A. Epter & Associates, Inc., New York.

Elmore N. Scott, Liberty National Life Insurance Company, Birmingham.

Roger W. Shenkel, Metropolitan Life Insurance Company, Denver.

Cecil J. Silva, Wells & Smart, San Jose.

Valentine W. Smith, National Life and Accident Insurance Company, Nashville.

William R. Snow, Bank of America NT & SA, Oakland.

James W. Snyder, Industrial Savings Bank of Fort Lauderdale, Fort Lauderdale, Fla.

Everett C. Spelman, Jr., Western Securities Company, Denver.

O. Russell Stoddard, J. L. Cooper & Co., Missoula, Mont.

C. E. Sullivan, Jr., Union Bank and Trust Company, Helena, Mont.

Kenneth R. Thomas, T. J. Bettes Company of California, San Francisco.

Delmar L. Tolle, Mortgage Investments Co., Colorado Springs.

C. Travis Traylor, Jr., Union Mortgage & Investment Co., Inc., Houston.

Gordon S. Vanderslice, Sparkman & McLean Company, Seattle.

J. L. Welker, General Mortgage Corporation of Iowa, Des Moines.

Robert E. White, City-Wide Mortgage Company, Kansas City, Mo.

S. F. White, Kinghorn, Driver & Co., Houston.

Milton L. Williams, State Farm Life Insurance Company, Bloomington, Ill.

Peter A. Wilson, Manufacturers Life Insurance Co., London, Ont., Can.

Edmund M. Woodburn, T. J. Bettes Company of California, Los Angeles.

Ernest Edward Yahnke, Bank of America NT & SA, Azusa, Calif.

*(Continued on page 40, column 2.)*

School can be, as school has often been, the best of times and the worst of times.

The School of Mortgage Banking is heavy, concentrated work and study. One

thing follows another in rapid fire order, lectures, notes, home study, examination.

But along the line, friendships are formed, to last and grow with the years.

# An Experience in Learning


JOHN GREER of the Guaranty Mortgage Company in Nashville—at 29, the newly appointed manager of his firm's mortgage loan department—is typical of the young men in the mortgage industry today. He works hard. He continues to study, to learn, to grow—preparing himself for the demands and responsibilities of the future. And because it will be to him—and to others like him—that the industry will look for its executive leadership of tomorrow, it is logical that the industry should feel an obligation to assist its potential leaders in building toward their future roles. It accomplishes this in many ways, one of the most effective being its own formalized program of specialized training—the MBA School of Mortgage Banking. Consisting of three successive summer sessions of one week each, interspersed with two Home Study Programs of eleven months each, it is the only postgraduate, comprehensive educational program in the country dealing specifically with the mortgage banking industry; and, to date, more than 1,300 men *and* women—John among them—have attended one or more of the courses which comprise the full three-year curriculum.

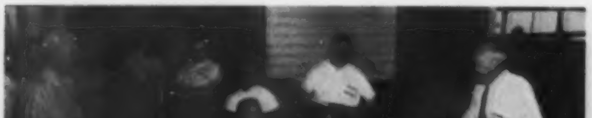
This summer, with Courses I and II completed successfully, John returned to the downtown Chicago campus of Northwestern University for Course III—ready to undertake his third and final week of classroom sessions. Here, pictorially presented, is the story of that week.

**» It's Sunday afternoon, June 26. John arrives at 710 Lake Shore Drive—Abbott Hall, his "home" for the week ahead. He registers, no new procedure for him, and collects the course materials he will use in the week to come. Later, he attends the "Get Acquainted Meeting and Dinner" which, traditionally, opens each course program. MBA President B. B. Bass is on hand, as are various of the course lecturers—men such as Thomas E. Lovejoy, Jr. (who chats with John in photo below), president of The Manhattan Life Insurance Company in New York, and the MBA Educational Committee vice chairman in charge of Course III. Here, John meets colleagues from all parts of the country and representative of all phases of the industry—men who within their respective companies hold a wide range of positions and work at varying levels of responsibility. Many are old friends of John; some—particularly if they took Courses I and II at the School's companion offering at Stanford University—he will be meeting for the first time. But, together, they will be sharing an experience—*"an experience in learning."***

>> Breakfast is early and class, each morning, starts promptly at 8:30. ** The School is no snap, John knows this. He knows, too, that in his week here, as in his preceding courses, he must absorb and retain a great concentration of learning—more, in less time, than ever before. Sessions are serious and professional in nature; the schedule includes evening lectures—the pace is brisk. ** Having covered, in Course I, the financing of dwellings and, in Course II, the financing of income and industrial properties, John concentrates, in Course III, on the multiple and varied aspects of mortgage loan investment policies, with special considerations of the mortgage banking profession. ** In one lecture session, for example, he learns (above right) all about the competitive position of mortgage loans in relation to other forms of investment. ** In another (below left) he joins with others in staying "after school"

to ask questions, for it has been a review session of the materials (money and capital market developments, Federal Reserve policy, sources and uses of capital funds, etc.) covered in the two-part home study program following Course II—materials which are an integral part of the curriculum, which must have been completed according to academic standards and which are covered thoroughly in a written examination (above right). ** As at every school, the big thing *is* the classwork—John's days are crowded with one lecture after another, each by an experienced authority on his subject. Attention is sharp and concentrated (reaction expressed in photo below is typical) for John and the others are hearing some of the best informed, most fully experienced men in the industry *and* from the faculties of the cooperating, and other, universities. Intuitively, they recognize the distinct advantage, to

them as students, in being exposed to this wide variety of opinion and to differing points of view on basically similar issues. ** There are breaks in the routine, of course—a twice-daily "coke break" (above right) is standard procedure. ** And the lecture pace is varied by introducing student elective sessions, held informally and dealing with a variety of property types not ordinarily handled by all mortgage bankers. John (below left) chooses one on office buildings. ** Then, come evening, it's study-time and John gets together (below right) with others in the course to review and to discuss some of the day's topics.



>> Group discussions—whether of the impromptu variety or as a scheduled activity conducted informally by a faculty leader (above left)—supplement, materially, the formal lectures and give John a chance to exercise his mental faculties, to explore, to exchange viewpoints and experiences. This is important, and it keeps the more experienced professional abreast of what the industry's younger minds are thinking. ** Even meal-time "table talk" (above right), John finds, can be a stimulating experience—all part of the learning process. He enjoys his meals at the School, food is good, the menu is varied. And he enjoys, also, on the one evening of the week when nothing is scheduled, to dine out with friends—sampling, for example, the cuisine of the popular Jacques French Restaurant (below left). ** So the week passes. Each class session brings new topics, new features, new ideas—

all adding up, John knows, to the most up-to-date curriculum possible, one which is expanded, revised or altered each year as the demands of the industry and the needs of the students dictate. ** One afternoon, John himself leads a session (above right)—a guided study session in which each student is assigned to a small, specific group and where specific questions are provided for study under the leadership of a designated student or alumni leader. ** Then, all rather suddenly, the moment of truth is at hand—and John writes his final examination (below left). ** Next day, however, it's class as usual, highlighted by a full afternoon symposium on mortgage banking (above right). Consisting of a series of short talks by a panel of industry leaders, it is—in effect—a powerhouse review of so many of the industry's multiple aspects. With ample time for student questions, it's the

kind of session which John, even if the final exam *is* behind him, wouldn't miss. ** The symposium ends, and it's all over—the concentrated lectures, the field trips, the long hours of work on the home study lessons, the written examinations, the accelerated pace of the week just past. There remain only the formalities of graduation, the evening reception and dinner (below left), the commencement address, and *then*—the moment when John's three years of effort reach fulfillment and President Bass presents him (final photo) his "Certificate of Graduation." He—and the more than 500 industry personnel who, like him, have successfully completed the MBA School of Mortgage Banking—won't soon forget all he has learned there, for it is a part of him—his to grow with, his to build upon.

# THE DOORS ARE OPEN

## *to some new mortgage offices around the country*

*Come tight money or easy, come varying preferences for loans, come any of the recurring changes which affect this business of mortgage lending, one thing that proceeds at a pretty even pace is the number of new physical plants which mortgage banking firms are providing for themselves over the country. Here's looking at a few.*

NO LONGER a mere trend but more an established pattern is the move on the part of mortgage companies, and many banks as well, *away* from cramped or acutely crowded quarters in old buildings and *into* newly constructed buildings—in many instances their own — where present-day construction techniques permit the widest possible latitude in layout and in utilization of space. Reflecting, graphically, the accelerated growth and expansion enjoyed by the industry these past two decades, this pattern of change and relocation is happening and is gaining momentum all over the country—in major metropolitan areas as well as in smaller communities.

Of course, it is not possible for this publication to keep tabs on each and every one of the scores of new offices in which the industry conducts its operations today, but it does from time to time report on many of the current moves. Here are a few, for instance.

In Mobile, Alabama, the Mobile Mortgage Corporation — for many years occupying a ground floor, corner location in the heart of the city's business district, but in a very old building—has moved into new quarters in the city's brand new Milner Building. However, in a reversal of the more usual trend, these offices are located (and very satisfactorily so) on the 12th floor of that building.

Having once determined the impracticality of remodeling the offices it had been occupying, and discovering the virtual impossibility of obtaining any satisfactory ground floor space without leaving the downtown area, which in this instance the firm did not feel was practical, Mobile Mortgage then had to give considerable thought to the question of whether or not a move from a ground floor location would adversely affect its monthly collections. It decided, finally, that because the firm had no "drop-in" trade, the advantages of a new building with adequate self-service elevators would more than off-set the possible advantages of a ground floor location.

With almost an entire floor to work with, since no partitions of any kind had as yet been installed, Mobile Mortgage was able to plan what it considered to be the most efficient layout for its operations, yet leaving adequate space for future expansion. Every effort was made to leave the office as open as possible, and with the exception of three private offices, the remainder of the space is completely uncluttered.

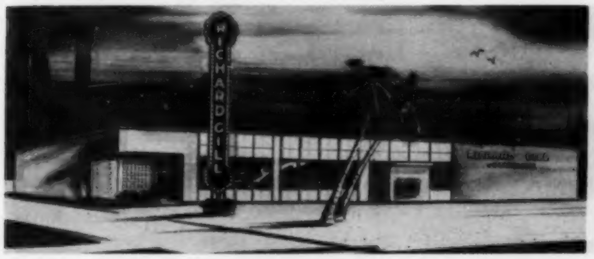
And in Helena, Montana, the Union Bank and Trust Company has recently moved into its new building —a building designed with an eye to visual appeal and to operational efficiency. The second floor of the new building is given over to the firm's mortgage loan department.

The Union Bank has long been a leader in mortgage lending in Montana and is the only lender and servicer in the state that operates on a statewide basis. It is mortgage correspondent for the New York Life Insurance Company in Montana and for the Teachers and Public Employees Retirement Systems of Montana, as well as servicing agent for several banks and insurance companies.

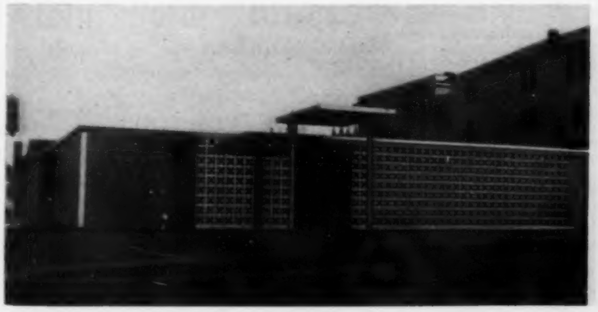
A San Antonio, Texas, mortgage firm—the Richard Gill Companies—likewise is now occupying a new home, their own brand new building in the heart of the city's business and finance section, with easy accessibility from two main traffic arteries. The construction of this new brick and granite, two-level building marked a milestone in the firm's 37 years of home and real estate financing.

Containing 18,000 square feet of floor space, the new quarters feature sound-proof interior construction, wired music, year-round air conditioning and bright interior decorating. Customer conveniences include drive-in deposit windows, a night depository and ample off-street, free parking adjacent to the building. Too, the location offers adequate area for future expansion.

That's a view of the general office (above left) of the Mobile Mortgage Corporation's new quarters. Cashier's counter is in the center foreground, with the entrance and customer's lounge to the left—facing the wall mural visible at the extreme left of the photo. All cabinets and counters were designed specifically for this office. Next, (above right) a view of the new quarters of the mortgage loan department in the Union Bank and Trust Company's new building in Helena, Montana.




Shown (above left) is an architect's rendering of the facade of the brick and granite building which is the new home of the Richard Gill Companies in San Antonio. The sketch shows the drive-in window and a portion of the client parking area surrounding the building. Next, (above right) is a view of the office foyer, where a refreshing air of cool Southwestern elegance greets the visitor. And, below, (left) is the new home office building of the Mager Mortgage Company in Oklahoma City; and (right) the award-winning Ralph C. Sutro Co. in Los Angeles.



Before final decisions were made on the new half-million dollar building's floor plan, executives of the Richard Gill Companies visited several of the nation's leading mortgage banking firms to study and to analyze similar type company operations.

The Richard Gill Companies is the oldest mortgage loan house in San Antonio, under the ownership and management of its founder who, as chairman of the board, continues to be actively engaged in the business. The firm's mortgage loan department is a lender for leading life insurance companies, savings banks and pension funds in the United States.

Mager Mortgage Company, Oklahoma City, also—earlier this year—moved into its new Home Office building in downtown Oklahoma City. Space in the new building approximately doubles that in the company's previous quarters. Mager Mortgage has been headquartered in the city's central business district since 1912.

In addition to occupying these new home office quarters, the company has considerably expanded its Tulsa office quarters, in the Enterprise Building. This year, the company is celebrating its 37th anniversary as a correspondent for the Connecticut

# Twin Cities Hold a Joint MBA Meeting

MBA President B. B. Bass was the principal speaker at the meeting which the Minneapolis MBA holds every year in conjunction with the St. Paul MBA. This year more than 175 from the Twin Cities attended, the largest for any such event. The MBA motion picture, "The Road to Better Living" was shown during the cocktail hour preceding the dinner at the Edina Country Club. Albert A. Drawbert, Minneapolis MBA president, presided and Robert J. Tansey, St. Paul MBA president, spoke.

The Minneapolis MBA, one of the oldest local associations in the country, is also a most active group. Five dinner meetings are held during the year. In April the group had a panel discussion devoted to various aspects of mortgage financing and next September, when the new association year begins, the group has scheduled a similar discussion of construction loans, mechanics' liens, etc.

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General Life Insurance Company in Hartford.

"Banking in a garden" might indeed be an apt way of characterizing the Ralph C. Sutro Co. in Los Angeles, whose new building on Wilshire Boulevard has just been honored with a "1960 Los Angeles Beautiful" award, presented annually by that city's Chamber of Commerce. Beautifully landscaped, the Sutro company takes full advantage of the unique features of its location to create a park-like setting for its building.

Occupying a one-acre site with 250 feet of frontage on Wilshire Boulevard, the building has an unobstructed view in three directions. The main entrance to it is reached by crossing a bridge over a hillside planted with cool ferns and low greenery. The principal plantings are sub-tropical with Canary Island pines and junipers as a background for white hibiscus and California tropical fruit trees.

Established in 1910, the Ralph C. Sutro Co. has financed the construction of homes, commercial and industrial buildings throughout Southern California and is servicing in excess of $100 million in first mortgage loans for institutional as well as private investors.

## 1960 GRADUATES

*(From page 33)*

Glen D. Fairbanks, Federal Old Line Insurance Company, Federal Way, Wash.

Herbert B. Feldmann, Savill-Mahaffey Mortgage Co., Indianapolis.

Charles R. Finnell, Walker & Dunlop, Inc., Washington, D. C.

William N. Fisher, Teachers Insurance & Annuity Association of America, New York.

D. Grey Found, Metropolitan Mortgage Corporation, Los Angeles.

Clyde D. Frame, Frederick W. Berens, Inc., Washington, D. C.

Frederick C. Fricke, Mechanics Bank of Richmond, El Cerrito, Calif.

Gerald F. Garren, Metropolitan Life Insurance Company, Chicago.

John E. Gaspari, Exchange Bank, Santa Rosa, Calif.

Richard W. Gates, Jr., A. H. Gruetzmacher & Co., Chicago.

Robert W. Giere, Eberhardt Company, Minneapolis.

Willard Gourley, Jr., Tysor Realty & Mortgage Company, Greensboro, N. C.

Marlin Graber, National Mortgage Co., Memphis.

John G. Greer, Guaranty Mortgage Company of Nashville, Nashville.

Jerome P. Griffin, The Riggs National Bank of Washington, D. C., Washington, D. C.

John J. Grinch, The Chase Manhattan Bank, New York.

Frank R. Guthmann, The Valley National Bank of Phoenix, Tucson.

Norman R. Hall, A. B. Robbs Trust Company, Phoenix.

William Q. Hamrick, Liberty National Life Insurance Company, Birmingham.

Thomas W. Harrigan, Citizens National Bank, Los Angeles.

Warren J. Hartley, Sherwood & Roberts, Inc., Walla Walla, Wash.

James A. Harvey, Bank of America NT & SA, Los Angeles.

Charles M. Herbert, Jr., Mainland Mortgage Company, Houston.

William S. Hedley, The Greater New York Savings Bank, Brooklyn.

William Hirschfeld, Colonial Mortgage Corp., Huntington, N. Y.

Margaret Huelsbusch, McMillan Mortgage Co., Los Angeles.

Louise B. Jackson, The Commercial Trust Company, Atlanta.

Nelda R. Jegl, Federal Life Insurance Company, Chicago.

Frederick M. Jewell, Colonial Mortgage Service Co., Upper Darby, Pa.

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**THIS IS YMMI:** YMAC is a familiar set of initials in MBA, standing for Young Men's Activities Committee. YMMI is not so well known. It stands for a Cleveland organization known as Young Men of the Mortgage Industry. At a recent meeting, Edward Eudy of the Central Bank was elected president, Robert Schmidt of Frank A. Schmidt and Sons was named vice president, and Perry Hamilton of Land Title Guarantee & Trust Co. was named secretary-treasurer.

The 38 YMMI members heard the latest in a series of talks given by local experts in the mortgage and related fields. Howard S. Bissell, MBA member, spoke on "Foreclosures." Bissel detailed the foreclosure situation for his younger audience, inexperienced in foreclosure due to 20 years of prosperity. He pointed out that the 1960 foreclosure rate of about 60 a month in Cuyahoga County is roughly 50 per cent above the 1959 rate.

The YMMI group is composed of mortgage men under 40 years of age interested in continued education in their field. The group also sponsors study groups on subjects of current interest. Upon reaching 40, a member is "kicked upstairs" to the senior MBA.

## A. E. Streitmatter New Dallas MBA President

New president of Dallas MBA is A. E. Streitmatter, vice president in charge of the mortgage loan department for Republic National Life Insurance Company. He succeeds James B. Biddle.

John E. Driscoll, Jr., appraiser for Guillot Mortgage Company, was named vice president and M. J. Greene, vice president of Southern Trust & Mortgage Company, was re-elected secretary-treasurer.

Mr. Streitmatter has been vice president and a director of Republic National Life Insurance Company in Dallas since 1949. A former president of the Illinois MBA, he has been in the mortgage loan field in association with life insurance companies for more than 40 years.

Members of the Dallas MBA represent more than 280 of the nation's largest investors in real estate loans, serving as correspondents in the Dallas area for these investors, who include life insurance companies, mutual savings banks and other organizations.

Above, Mr. Biddle, Mr. Streitmatter and Mr. Driscoll.

## Henry Trione Heads Northern California

Henry F. Trione, President, Sonoma Mortgage Company, San Francisco, was elected the 1960-61 president of the Northern California MBA.

Albert E. Maggio, vice president and secretary, Marble Mortgage Company, was elected vice president, Ira S. Wilbur, production supervisor, Pacific Mutual Life Insurance Company was named secretary, and Kenneth Warren, Mason-McDuffie Company, was elected treasurer.

Chosen to serve as directors were Frank E. Hayward, Coldwell Banker & Company; Willis R. Bryant, Bryant-Johnson Mortgage Co.; Eugene S. Cox, Pacific Mutual Life Insurance Company; Max E. Weyer, Mechanics Bank of Richmond; Earle V. Taylor, Crocker-Anglo National Bank; A. G. Cummings, E. S. Merriman & Sons; Max L. Bates, T. J. Bettes Company; Ernest A. Clark, Wells Fargo Bank-American Trust Company; C. E. McCarthy, Bank of America; and R. F. Moretti, Bank of America.

## John Eleford Named New York MBA President

John F. Eleford, president of Eleford & Counihan, Inc., has been elected President of the New York MBA. Philip L. Greenawalt, executive vice president, Brooklyn Savings Bank, was elected vice president; Harry W. Baum, assistant secretary, County Trust Company, was re-elected treasurer; and Bruce H. Zeiser, attorney for Lawyers Title Insurance Corporation, was elected secretary.

Elected to the board were Edgar C. Egerton, senior vice president, The Seamen's Bank for Savings; Raymond T. O'Keefe, vice president, The Chase Manhattan Bank; and Thomas H. Quinn, president, Inter-County Title Guaranty and Mortgage Co.

Russell G. Smith, vice president, The Manhattan Savings Bank, who retired as president of the Association after a two-year tenure in office, will now serve on the board for the next three years.

New York MBA consists of most of the larger firms in the mortgage industry in the New York area, including 40 savings banks, 18 commercial banks, 11 savings and loans, 5 insurance companies, 8 title companies, 2 firms of attorneys, and 89 brokerage firms.

Left first row, left to right, W. F. FitzGerald; Mr. Egerton, Mr. Smith, Mr. Eleford; Wesley J. Bahr, board member and vice president, First Federal Savings and Loan Association; and Harry W. Huter, retiring member of the board and vice president, Stalford & Company, Inc.

Second row, Mr. O'Keefe; Mr. Zeiser; Eugene J. McCarthy, board member and vice president, J. I. Kislak Mortgage Corporation, Jersey City; Seymour Fischman, retiring member of the board and president, Security Title & Guarantee Co.; Stanley T. Jahoda, retiring board member and assistant vice president, The Lincoln Savings Bank of Brooklyn; and Mr. Baum.

# Servicing Tips

## from the Top

*About mortgage loan servicing*
*Conducted by W. W. Dwire*
*Chairman, Servicing Committee*

# If Delinquencies Occur, Better Know How to Handle Them the Best Way

*Delinquencies are not now a major problem in running a mortgage business, but they could become that at some future time. Thus, it's good business to arm yourself with the best plan, ready to meet whatever may develop. Here an investor describes in considerable detail how his company regards a delinquent loan, what is expected from the correspondent and what the company will contribute to solving the problem. How this company does it may suggest ideas for others, both investors and correspondents.*

AN INVESTOR with funds to lend naturally will seek out those correspondents who, in his opinion, can invest them safely and, at the same time, yield the largest net return. Even with the most careful underwriting, occasionally an account becomes delinquent. When a delinquency occurs, the investor must rely entirely upon the efforts and ability of the correspondent to correct it or, in the event it cannot be cured, that the correspondent shall take such steps as to minimize loss.

It is the practice of Liberty National Life to encourage, to the greatest degree possible, the exercise of individual judgment and discretion in all phases of mortgage servicing on the part of the correspondent. This desire is probably greater in the servicing of delinquent loans than in any other phase of mortgage servicing. The correspondent always has the information pertinent to a particular case, knowledge seldom available to the Company. In addition, many intangible points involved in a particular case can only be known to the correspondent as a result of being on the scene and after dealing with a borrower personally. It is based upon this knowledge possessed by the correspondent and his position as a servicer that the Company always expects him to exercise his own judgment in formulating a course of action or in making a recommendation to the Company.

The correspondent should have established procedures in his office for contacting delinquent borrowers. It is through years of experience, association with other industry members, and a constant review of methods, with the objective of always improving upon procedures, that ultimately leads to the very minimum of delinquent accounts. It is not our practice to attempt to dictate what procedures a correspondent should follow, but only to encourage as much as possible a constant alertness to the problem of delinquencies and methods toward improving procedures.

A payment not received on or before its due date places a loan immediately in default. The procedures established within the correspondent's office for handling delinquencies will immediately or shortly thereafter come into play, designed for the purpose of curing the delinquency in minimum time.

*By* **O. E. ROLLINGS, JR.**
***Manager, Mortgage Servicing Department, Liberty National Life Insurance Company, Birmingham***

For purposes of reporting delinquencies, loans over-due for two or more monthly installments are considered in default and within the category of accounts on which we will request status reports and other pertinent information. Loans under the terms of which payments are due other than monthly are considered in default when interest due is more than 30 days past due.

The Company furnishes a duplicate tabulated listing to the correspondent in approximately one week after the close of each month, indicating loans unpaid for the installments due the preceding month or prior thereto. Included is the loan number, due date of next installment, state code, type of loan, and servicing agent code number. The correspondent is in-

structed to furnish to the Company at the earliest convenience a detailed report as to the status of each account. If more convenient, for those cases which are 30 days' delinquent, this information may be noted in the right hand margin of a copy of the listing and the listing returned to the Company. For those 60 or more days delinquent, we request that a detailed report by letter which will include the correspondent's recommendation as to action to be taken.

The correspondent is responsible for making all necessary reports to FHA and VA to comply with regulations. It is expected that a notice of default will be filed upon the due date of the third unpaid installment on both FHA and GI loans, and that a copy will be furnished the Company.

In every case, the borrower should have received a delinquent notice or a letter. This is considered a "mild action" on the part of the servicer and may be more desirable in specific cases, particularly when dealing with a first delinquency. On the other hand, every delinquency is serious and while notices and letters are desirable they constitute devices which achieve limited results.

Telephone calls are effective in contacting many delinquent borrowers. They will be more impressed with the seriousness of the matter and the correspondent's concern for his account. While better than notices and letters, a call is considered more limited than a personal visit to the property for an inspection and a discussion with the borrower. A visit will, in the majority of cases, provide a lasting impression upon the borrower, and give him the immediate impression that the matter is very serious and that he may contemplate drastic action. It will in most cases achieve the desired results.

When making a recommendation, it naturally follows that the correspondent will have personally contacted the borrower and accumulated sufficient information for a recommendation. By the correspondent presenting the whole story, the Company will, in a majority of cases, concur in the correspondent's recommendation.

The correspondent, after determining that referral of a loan to an attorney is desired, may, without (with some correspondents only *with*) the prior specific approval of the Company, refer delinquent loans to attorneys for collection only, subject to the following conditions and requirements:

- Default, within the meaning of the terms of the instruments and the appropriate governmental regulations, must exist in the payment of principal and interest, and the correspondent's reasonable efforts to effect payment have failed.
- The attorney must have been previously approved by the Company.
- The attorney is instructed to accept only such sums as will fully reinstate the loan, together with full payment of all expenses and fees charged by him for such collection.
- The attorney is instructed not to accelerate the debt without written authority from the Company.
- The correspondent will, either by copy of letter to the attorney or by separate correspondence, immediately advise the Company of the details of each referral and the reasons and submit a report of the status of the loan in default and referred for collection.
- The correspondent will, immediately upon referral for collection or prior thereto, file with the appropriate governmental agency the necessary reports and send a copy to the Company.

Should collection efforts fail, or if for any reason foreclosure proceedings be necessary, the correspondent, or the attorney, shall advise the Company of their recommendation. The file will be referred to the company's Law Department which will send direct to the attorney handling the collection the necessary instruments and appropriate instructions. Thereafter, until foreclosure is completed or dismissed, and the loan is reinstated or the handling otherwise concluded, all correspondence with the attorney handling the matter will be handled directly by the Law Department with copies of such correspondence to the correspondent.

Should a VA or FHA loan be foreclosed, the necessary title evidence and legal requirements will be accomplished by the attorney working with the Law Department. The administrative reports and accounting records are prepared by the correspondent and forwarded to the Company for verification and execution and the latter will forward them to the appropriate agency.

When foreclosure proceedings are contemplated, it must be determined that all servicing efforts have been diligently fulfilled, and that sufficient details are known relating to the particular loan involved.

There will be situations wherein a deed in lieu of foreclosure will be

considered acceptable and will serve as a substitute for foreclosure proceedings. The course to follow insofar as acquiring a particular property is a matter involving legal considerations and, as for the servicing function, the preliminary step is to determine whether or not a deed in lieu of foreclosure could be obtained from the borrower. The course to follow in any case then will depend upon the applicable laws.

Depending upon the type of loan involved, there will be certain procedures or requirements which must be fulfilled when foreclosure proceedings are instituted. Requirements which must be fulfilled are:

FHA: 1. Immediately upon institution of foreclosure proceedings, FHA Form 2068 is to be filed in duplicate with the field office of FHA within the state the property is located. The information applicable to the foreclosure proceedings is to be included under Part 6 of this form. The category pertaining to disposition need not be completed in this notice.

VA: 1. Immediately upon institution of foreclosure proceedings, a copy of the notice of sale is to be furnished the VA regional office and, at the same time, the VA should be requested to furnish us with the bidding instructions of the Administrator.

When a recommendation to start foreclosure is made, the Company is to receive a preliminary property inspection report. This is to furnish such information as occupancy, condition of exterior and interior, estimated sales price (as-is), estimated cost of needed repairs and estimated sales price after repairs (a form for this report will be furnished by the Company to the correspondent).

It is the practice of our Company to accept reinstatement in all cases except where a prior decision has been made to accelerate the debt and to refuse reinstatement. Dependent upon the applicable laws, there will be certain legal requirements to be fulfilled when accepting reinstatement. The responsibility for satisfying these requirements rests with the attorney and the Law Department of the Company.

FHA: Reinstatement is reported by filing FHA Form 2068 (Submit 1 copy). This report is required only in the event the default was originally reported. A copy should be sent to the Company.

GI: Reinstatement of GI loans is reported by letter to the state office. A copy of the letter should be sent to the Company.

The check representing the reinstatement of a loan will be delivered to the correspondent by the attorney and, in turn, handled in the customary manner through the correspondent's records, except that a special remittance report should be made to assure prompt receipt by the Company. If the collection of the delinquency coincides with preparation of a regular remittance report, then the collection may be included in the regular report.

Since the correspondent will constantly be in contact with the attorney handling a collection or foreclosure, he will be in a position to receive early advice relative to the outcome of a foreclosure sale.

In all cases whereby the Company acquires property at foreclosure, it is to receive a detailed inspection report. This is to furnish such information as to neighborhood, property description, physical condition and estimated present market value "as-is" and "repaired" (a form for this report will be furnished by the Company to the correspondent).

It is not our policy to automatically undertake, in cases of FHA and GI loans, to convey foreclosed property to the appropriate governmental agency. In some cases, it will be found that property acquired by foreclosure may be disposed of on a profitable basis, thus improving the Company's position, as well as that of the governmental agency. A primary purpose of the detailed inspection report mentioned is to assist in reaching a decision as to what disposition is desirable. Any decision made will naturally be heavily influenced by the correspondent's advice and recommendations.

Whenever a foreclosure becomes imminent, the correspondent should be alert to all possible solutions whereby the Company may expect the outcome realized to be the most favorable under the circumstances. This alertness should evolve around an up-to-date knowledge relative to property values within the area, as well as values for the particular type of property involved. He should always have a complete knowledge of all these factors, economic and otherwise, which will have a bearing on disposal of foreclosed property. From the standpoint of financing of foreclosed properties, the Company will naturally be in a position of offering very favorable terms which, in turn, will enhance the possibilities of a private sale.

Where it is determined that a private sale will be made, special instructions applicable will be furnished the correspondent by the Company.

Upon realizing foreclosure or otherwise acquiring title to a property securing an FHA mortgage loan, the FHA will be notified of the disposition to be made of the property by filing FHA Form No. 2068, Notice of Default Status. This form is to be filed by the correspondent and a copy furnished to the Company. This information is reflected under Item 6 of

this form, and is submitted in duplicate to the FHA State Insuring Office. Upon notifying FHA of an intention to convey the property in exchange for debentures, the Home Mortgage Section of FHA in Washington will furnish the correspondent the forms necessary to file application for debentures.

For the purpose of filing our application for debentures, the FHA will furnish the following:

FHA Form 2319, Attorney's Certificate of Title

FHA Form 2765, Application for Debentures and Certificate of Claim

FHA Form 2766, Schedule of Tax Information

The Attorney's Certificate of Title, together with the FHA's instructions showing title requirements should be delivered to the Law Department of the Company for handling. FHA Form 2765, Application for Debentures and Certificate of Claim, and FHA Form 2766, Schedule of Tax Information, are to be filled out by the correspondent and the forms are to be sent to the Company for execution and delivery to the FHA. These forms, when submitted to the FHA, constitute the Company's application for debentures and must, therefore, be submitted within 30 days after the property is acquired by the Company.

It is essential that all information requested in these forms be completed in all detail. The FHA case number, the name of the mortgagor or owner of record at the time of foreclosure and the location of the property (not the address of the former mortgagor) must be shown. If submitting a group application for debentures (five or more cases), these cases should be arranged in numerical order on the reverse side of Form 2765, Application for Debentures and Certificate of Claim. The numerical order should begin with the lowest FHA case number.

The following information will be helpful in filling in FHA Form 2765, Application for Debentures and Certificate of Claim:

Section I:

Line 1. This information will reflect the present status of the property with respect to the occupancy.

Line 2. Indicate the date the last complete installment received prior to the institution of foreclosure was due.

Lines 3. & 4. The date to which interest was paid by the installment shown in Line 2 and the unpaid principal amount of the loan after crediting said payment is reflected in these lines.

Line 5. Indicate the means by which the property was acquired, that is, by a foreclosure action or otherwise, such as, by a deed in lieu of foreclosure.

Line 6. In the event of foreclosure, the date of the first legal step necessary to acquire title should be indicated on this line.

Line 7. Indicate the date on which title to the property was acquired.

Lines 8. & 9. Information relative to any deficiency against the mortgagor and whether or not a deficiency judgment has been obtained should be obtained from the Law Department.

The schedule for tax information, Form 2766, accompanies Form 2765, and constitutes a part of the preliminary application. The upper half indicates the kind of taxes or assessments which are or may become liens against the property. Also indicated will be the tax year, how the taxes may be paid, and dates due and the delinquent dates and to whom the taxes are payable. The lower half of the form indicates the FHA case number, the property description and the amount of the taxes last paid.

At approximately the same time as the application for debentures is filed, the attorney will submit preliminary title evidence satisfactory to the Commissioner. This evidence will be reviewed along with the documents submitted in the application for debentures. The final step in accomplishing actual conveyance of the property will be the submission of final title evidence executed as of a certain date, to include the recording of the deed to the Commissioner, indicating that according to the public records there are no outstanding liens at such date, including any general taxes or special assessments.

It is necessary that all costs in connection with a particular conveyance be available, and that the return premium in cancellation of hazard insurance is available.

Simultaneously with the establishment of an acceptance date by the FHA, the correspondent will be furnished with FHA Form 2767, Fiscal Data in Support of Application for Debentures and Certificate of Claim, and FHA Form 2767 A, Summary of Rental Accounting. Accompanying these forms are complete instructions as to how they are to be filled in, and the instructions correspond with the sections and items, as reflected in the forms. These forms are to be sent to the Company in the same manner as the preliminary application.

Upon realizing foreclosure or otherwise acquiring title to a property securing a GI mortgage loan, the VA will be notified by certified mail of the disposition the Company desires to make of the property. A time limit of fifteen days following the date of foreclosure is permitted in which to advise the Veterans Administration of our election to convey the property in exchange for the VA guaranty.

Dependent upon the particular VA

office involved, the Law Department will undertake to furnish VA with the necessary title evidence or the VA will undertake to obtain it. Where the cost of title evidence is incurred by the Company rather than paid for directly by the VA, it is necessary for such cost to be included in the application for payment under the loan guaranty. The correspondent will be advised by the attorney or the Company concerning these costs, and he will be furnished with the necessary information as to the cost of foreclosure. Upon acquisition of a property and determining the amount of costs incurred in the foreclosure and obtaining title evidence, the correspondent should prepare VA Form 4-1874, Claim under Loan Guaranty, in triplicate, together with a final statement of account, in triplicate. The information called for in VA Form 4-1874 is self explanatory and is to be filled in completely on both sides. These forms are to be sent to the Company for execution and delivery to the VA. In every case, the VA forwards their instructions as to the procedure for obtaining payment under the guaranty, and these instructions should be followed to the letter, to the end that payment may be received within the minimum time.

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**FIRST HALF:** In June, 26,416 units were started under FHA, up 4.7 per cent from May. Of this, 22,578 were in one- to four-family structures, about the same as for May but a 6 per cent drop on a seasonally adjusted basis. The 3,838 units in multi-family structures were up 46 per cent.

In comparison with May 1959, starts on smaller units are off by nearly one third, while starts in larger structures are up nearly 90 per cent. Over the first five months, the former are off about one-quarter, the latter, about 11 per cent.

In June, 7,711 dwellings were started under VA, up 11 per cent from May but off 30 per cent from June 1959. For the first five months, VA starts total 35,992, 35 per cent less than in the like 1959 period.

Although there has been some decline from the June 1959 level in starts under conventional financing or all-cash arrangements, it has been less pronounced than under the government-sponsored programs.

# *Profiles of People*
## *at work in MBA*

**NORMAN H. NELSON** enjoys a certain unique distinction in MBA's development, one not quite matched by anyone else. He was one of the very first life company officials to take a direct and active interest in the Association and its efforts for the mortgage industry, an interest he has sustained for a quarter of a century. From the beginning he has been a firm advocate of the correspondent system as the ideal way for life companies to secure one of their most important investments. When many were taking the correspondent—

investor relationship for granted, he was speaking and writing about ways to make it an even better combination—and for his pioneering the industry owes him a vote of thanks. When MBA began its educational program no one opposed it but there were some not overly enthusiastic. Norman Nelson was not in that group. He plunged into the early work of the project and made an important contribution to its success in those struggling survival years.

He is vice president and treasurer of Minnesota Mutual Life Insurance Company of St. Paul, an institution of which he is as much a part as the handsome new building where the company is housed and in which he had an important role in planning. He is a past president of St. Paul Rotary, has been particularly active in Boy Scout work and has been in the forefront of all sorts of civic enterprises in his community where, a few years back, he reigned as King Rex of the Winter Ice Carnival—the highest honor which St. Paul can bestow on one of its citizens. In MBA, he has lent his talents and his time to a long list of committees. This year he serves on the MBA board, as he has for many years.

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**WILLIAM F. KEESLER** is senior vice president of one of New England's fine old banking institutions, the First National Bank of Boston—and rather well established too, one might say, since this is its 176th year. When, not too many years ago, the mortgage industry was evolving from what it was prior to depression days to the modern, streamlined credit operation it has become, this institution was one of the first to begin actively "banking the mortgage banker." As a result, Bill Keesler set out to know everything he could about

the business—and the result of this, in turn, has been that he has become an outstanding and respected authority on mortgage credit. Mortgage originators have looked to him for advice, guidance and counsel, knowing that they could expect carefully considered and unbiased views. He's a mixture of deep New England conservatism and alertness to the changing times, a combination that makes for sound, dependable judgment.

He's been in banking since 1917 and since 1932 has been with the First National. He's a trustee of Tufts College and Emerson College. He's served on many state and Boston boards and commissions as a member and as an adviser on matters relating to finances. In MBA he has likewise served on many committees and he takes it for granted that when he accepts an assignment he is expected to work—and does. This year his principal MBA activity is as a board member.

PENSION FUNDS

*(Continued from page 24)*

fund; and before being sent to the fund, all mortgage papers are checked carefully by this lawyer. From this point on, the fund need be concerned with no further details.

And therein, the Company feels, is the heart and soul of its plan: spell it out, first, in the minutest detail—put everything, even points normally taken for granted, in writing, no matter how bulky an instrument the servicing agreement does become; then follow through by totally eliminating the necessity of responsibility for these details on the part of the fund.

"It is," as a Bettes official views it, "the key to the entire puzzle of the mortgage banker getting through to pension funds which, under usual circumstances, he would never be able to interest. For under this operational approach, coupled with the single debit system of accounting, a fund is assured the same handling ease as if it were to purchase a diversified million-dollar block of bonds."

In New York City, The Bowery Savings Bank—under the conditions provided by recent changes in New York's state banking laws—is inaugurating a plan through which the facilities of its mortgage investment department will be made available for the origination and administration of mortgage loan investments to pension funds, welfare funds and other permanent investors.

An outgrowth of a new law which now permits savings banks in the state of New York to deal in investments, to issue debentures and to service for others, the Bowery plan is a carefully formulated approach—based on more than two years of discussion with pension fund managers all over the country. In attracting public pension fund money into mortgage investments, "the plan should," in the words of Bowery vice president Elbert B. Schenkel, "be a gold mine for Bowery's 65 correspondents."

Under the operation of this plan, Bowery is paralleling, in effect, the procedures with which pension fund managers are familiar. Working with funds anywhere in the country and placing mortgages anywhere in the country, the plan does not stress freedom from work—it stresses principally such aspects as avoidance of worry over "doing business" laws, wide geographic diversification, etc.

In selling mortgages from its own portfolio or in purchasing mortgages from other originators, Bowery at all times holds title in its own name. Issuing to each purchaser a "certificate of deposit," Bowery retains no power to assign, transfer or otherwise dispose of the mortgage represented thereunder. It does retain independent servicing contractors to service the mortgages under servicing agreements inspected and approved by the purchaser in each case. Copies of these agreements are delivered to the purchaser when Bowery assumes custody of the mortgages. Bowery, of course, assumes responsibility for all loss occasioned by negligence or by unauthorized acts of its own employees; it makes monthly payments to the purchaser and it maintains insurance. And, under the terms of its agreement with each purchaser, Bowery—in the event of loss or damage by fire or other hazard — need notify the purchaser *only* when that loss is in excess of $2,000.

Compensation to Bowery, for these services, is pegged at an amount equal to 1/12 of one-fifth of one per cent of the unpaid principal balance of mortgages outstanding at the end of each month.

In recent years, three new organizations have been developed and are, today, functioning as important "mechanical devices" in channeling pension fund money into mortgages. Each represents a distinct departure from earlier operational procedures and each contributes significantly to the industry's overall efforts to draw pension funds to the mortgage market. All mortgage bankers, undoubtedly, are familiar with them:

*Investors Central Management Corporation* (ICM) is, in essence, a "hired mortgage department" for the trustees of well over 100 different corporate pension funds around the country. With its nationwide access to mortgages and its ability to provide full investment facilities, it—in performing the "home office" functions for these funds—enables the funds, as investors, to gain the advantages of yield *and* safety which are inherent in a portfolio of government-backed mortgages—simply, conveniently, and with the same flexibility as is possible with other investment media.

Currently, with $108 million of mortgages either under contract or on order—$61 million actually on the books, another $47 million committed—ICM offers yields, on a 12-year prepayment basis, of 5.57 to 5.63 per cent; and, to maturity, of 5.45 to 5.49 per cent. That's on FHAs. On VAs, the yield is 5.59 to 5.65 per cent, on a 12-year basis; and 5.32 to 5.37 per cent, to maturity. Quoted by President Arthur Viner, these figures (current as of mid-July) represent the absolute net to the investor, *after* all fees.

Not the dream investor many mortgage bankers anticipated, ICM is a hard taskmaster. It is governed by strict rules. In the words of one of its servicers, "it is, if anything, a bit more difficult to work with from an operating standpoint than most investors." When it speaks to a servicer, even if that servicer chances to be one of its own stockholders, it speaks more strongly than most other investors. Servicers are given little latitude in their operations; they very definitely do compete with one another and there is very limited room to negotiate on price. Each ICM servicer must follow strictly specified and uniform procedures and each must use standardized ICM submission forms, accounting forms, etc.

In maintaining servicing agreements with at least 56 different servicing agents in all sections of the country, ICM is able to provide a broad geographical diversification in both economically sound *and* growth areas. It is important that big fund trustees have access to the national mortgage market. Bond portfolios are diversified throughout the country, mortgages must be too. It is logical, therefore, that ICM places great emphasis on area diversity when selecting its servicing agents; and when once an area is thoroughly covered, it can't take on other agents in that same locale. In accepting a servicer, ICM considers its ability to produce, to cooperate and, says President Viner, "its capacity to stay in business for at least the next 30 years." It accepts no mortgage firm with more than 20 per cent of its servicing volume in FNMA.

*The Mortgage Corporation of America* (MCA), formed in 1958 following a revision of FHA regulations to permit a participating interest in FHA-

insured mortgages through sale of obligations to the public, has just recently completed its financing—through the private placement of $1 million in 20-year notes to two Baltimore investors, a life insurance company and an employees retirement fund—and is now in operation.

Originally, a sale of notes at a rate of 4⅝ per cent had been planned, but ultimately a negotiated sale was decided upon, with the SEC approving a higher 5¼ per cent rate. The present issue, non-callable within five years, was sold at 97.5 with the first maturity of $300,000 due in 1969. Under this financing plan, a buyer of the notes has, in effect, an interest in a group of mortgages, yet is not involved with the detail work of direct investment.

Because the funds for MCA's new note issue came from a source which otherwise might not have entered the mortgage market, it points up most graphically the eligibility of pension funds as a source of supply of money for government-insured loans.

*Instlcorp, Inc.*, set up in February, 1957, as a subsidiary organization to the 26-year old Institutional Securities Corporation, which is owned by and works for the mutual savings banks of the State of New York, offers yet another variation of the collateral trust note plan whereby a pension fund invests in collateral trust notes secured by a pool of specific home mortgages. The investment yield afforded by these notes is, of course, directly related to the yield returned by the specific mortgages pledged as security.

Current yield, according to Instlcorp President Clifford Boyd, ranges from 5.30 to 5.40 per cent on a to maturity basis, and from 5.40 to 5.60 per cent on a 12-year basis.

By using these collateral notes to avoid all legal and tax complexities of doing business outside of a lender's home state, Instlcorp effectively insulates the funds from the problems inherent in the direct purchase and ownership of out-of-state mortgages. And the fund receives all of the investment advantages of FHA and VA mortgages without having to invest in them directly.

The number of pension funds which, together, make up this gigantic and ever-swelling reservoir of available investment capital, continues to grow and grow and grow. Of the 128,000 plans* on file with the U. S. Department of Labor, under the "Welfare and Pension Plans Disclosure Act," upwards of 25,000 provide pension or retirement benefits.

Many of these are of the smaller, self-administered type. (For these it is absolutely essential that the problems relating to residential mortgage handling be simplified to a maximum degree.) Many are administered through smaller commercial banks and trust companies. And many of the state and local retirement programs — this includes a number of charitable, educational and other nonprofit funds—are all administered at the local level.

Likewise, it is a fact that no matter how impressive the overall potential might be in the field of pension trust operations, on a country-wide basis the *typical* fund does not run into tens or hundreds of millions of dollars, but to a much lower figure—probably measured in the few hundred thousand dollar category. Indeed, a mortgage banker can pretty well assume that any employer in his area with at least a couple of hundred employees or more will have some kind of a fund—and this fund *must* be invested in some sort of security. Why not mortgages? It's a safe assumption to make that the officers of such a corporation will be likely to look with favor on loans made on property in their own area, on property with which they can become familiar—a feat not always possible when dealing in more distant investments.

And to what does all this point? It points, very definitely, to what might well be an unmined source of investment capital for mortgages — the smaller, local funds. It suggests, certainly, that a mortgage banker might best serve his own interest if he sticks closer to home, if he directs greater emphasis to the local character of the pension fund market, if he concentrates on developing the possible outlets in his own area. There is nothing unethical in making use of personal relationships and established personal contacts to establish initial inroads.

In short, don't tackle the giants—and on the first go-around, at least, avoid the New York market. It's a wholesale market and the toughest in the world.

In 1950 and 1951, the mortgage banker had to learn to work with the savings banks. Before then, he'd operated strictly as a "straight" correspondent—but he had to make the adjustment. Most did. Now he must learn how to work with pension funds —how to adapt, where necessary, to suit their needs. And, the full extent of his success or failure—as stated in the very beginning of this article—will depend, to a very great degree, on the individual performances of each and every mortgage banker in the industry.

And there is much an individual mortgage banker *can* do—his work, indeed, is cut out for him. He is up against stiff competition and he must be aggressive in pointing up the advantages of his "merchandise" over the alternative choices in other fixed-income securities. He must trigger his own already keen interest; he must awaken the latent interest of the funds. He must do everything in his power to make the funds aware of the opportunities in individual areas. In making his solicitations he must present his offering concisely, clearly and completely—he must be careful to provide no excuse for the fund manager to put it at the bottom of the pile and then forget it. He *must* develop new techniques of handling and processing; he *must* develop the concept of "immediate" delivery; he *must* be more strict with his builders —ride herd on them, when necessary; he *must*—each, individually—work to effect changes in his state's "doing business" laws.

Yes, there are many "musts." And, with pension funds looking to the long, long pull, one of the most important—certainly one of the most fundamental—seems to be: he *must* build up his own image. He must veer away from the sheltered correspondent psychology; he must show that he can be a responsible financial institution in his own right, that he has the wherewithal "to stay in business for at least 30 years."

As one of the industry's prominent voices quoted recently: "In human life there is constant change and it is unreasonable to expect an exemption from the common fate."

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*This figure, released May 16, 1960, includes all plans for which descriptions had been filed as of August 31, 1959. Since that date, however, approximately 10,000 additional descriptions have been filed.

# People : Places : Events :

**D. Richard Mead, Jr.** has been named president of D. R. Mead & Company, Miami, succeeding his father, **D. Richard Mead,** who becomes chairman of the board. Elected members of the board are **Roger N. Terrell,** executive vice president, **Phil C. Gallagher,** executive vice president, and **Robin Brown,** vice president. New officers are **James C. Olive,** treasurer and **Rebecca D. Jordan,** secretary.

D.RichardMead,Jr.

Mead, Jr., is a past secretary, Greater Miami MBA, member of board of Florida MBA, vice chairman of the Young Men's Activities Commitee and a member of MBA's Insurance Committee. He attended Duke University, Harvard Business School, and the School of Mortgage Banking, Northwestern University.

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Garrett-Bromfield Mortgage Company has merged with The Jordan Mortgage Company, both of Denver, and the new firm will continue under the Garrett-Bromfield name. Officers of the new corporation are **Antone R. Bowler,** president; **Donald M. Alstrup,** executive vice president; **Van Holt Garrett, Jr.** and **Thomas J. Coughlin,** vice presidents; **Donald C. Bromfield, Jr.,** treasurer and **John E. Wilburn,** secretary.

Mr. Bowler has been active in the management of Jordan since its incorporation in 1946, and has been its president and principal stockholder since 1952. He is now president of the Denver MBA.

Garrett-Bromfield Mortgage Company was incorporated in 1959 to handle the mortgage banking activities developed by Garrett-Bromfield & Company over its many years of operation. Van Holt Garrett, Jr., executive vice president of Garrett-Bromfield & Company, has been president of the new corporation since its inception. Garrett-Bromfield & Company, under the continued direction of its president, Donald C. Bromfield, its executive vice president, Van Holt Garrett, Jr., and its vice president and assistant to the president, **F. Willard Herres,** will concentrate on land development, property management, real estate brokerage, insurance, and investment securities activities.

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**Carroll T. Eddie** has been named assistant manager of the mortgage loan department of Commonwealth Life Insurance Company of Louisville, **C. L. Hassmann,** vice president, announced. Mr. Eddie was formerly a supervising appraiser for Prudential Insurance Company. He has been a student of the School of Mortgage Banking.

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**Charles H. Shaw, Jr.,** formerly assistant director of national sales, Home Title Guaranty Company, has joined the New York staff of J. Maxwell Pringle & Co., Inc., New York, as assistant vice president. He will specialize in multi-family projects including military housing, housing for the elderly, nursing homes and urban redevelopment financing. A graduate of Williams College, Mr. Shaw served three years in the United States Air Force as a first lieutenant attached to S.A.C.

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**Ross D. Hill,** vice president and treasurer of Union Dime Savings Bank, New York, has been elected a trustee. He is in charge of the real estate and mortgage department, a post he assumed in July on the retirement as vice president of **Herbert L. Williams.**

Starting as a clerk in 1929, Mr. Hill has held various positions in the bank. In 1943 he was made an assistant secretary, and in 1949 an assistant vice president. He is a graduate of the Stonier Graduate School of Banking at Rutgers University and of the Management Development Conference at Dartmouth College, sponsored by the National Association of Mutual Savings Banks. He is a member of the National Association's Committee on Mortgage Investments, MBA's FHA Committee and the Columbia Society of Appraisers.

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**Walter Kautz,** mortgage secretary of Ohio National Life Insurance Company, was elected president of the Cincinnati MBA for the coming year. **Albert Mueller,** assistant vice president, Fifth Third Union Bank, was elected vice president; **John Rutledge,** Walldon Mortgage Company, was elected secretary and **James Stevenson,** Panohio Mortgages, Inc., was elected treasurer. Governors named include **Landon L. Wallingford,** president, Walldon Mortgage Company and **William F. O'Rourke** of Robert A. Cline, Inc.

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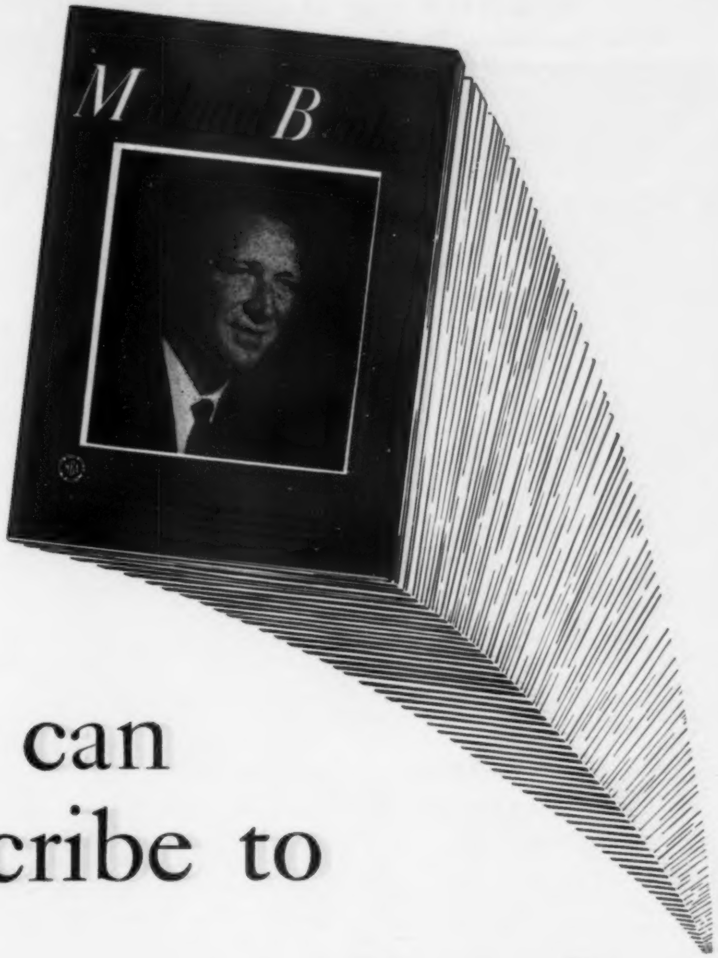
General Title & Trust Co., Cleveland, has acquired control of much larger Mortgage Securities, Inc., of Canton—making the Cleveland mortgage banking firm one of the largest in Ohio.

Based on past business, the combined firms will service $102 million a year.

Mortgage Securities, founded in 1956, services an annual volume of about $90 million and has major branches in Cleveland, Dayton and Youngstown and a small office in Toledo.

**Harry Robbins,** General Title president, will be chairman of Mortgage Securities, whose president, **Robert K. Domer,** and other personnel remain.

**Mayer S. Robbins,** General Title executive vice president, will occupy the same position with the Canton firm, as will General's secretary and counsel, **Suggs I. Garber.**



# You can subscribe to *The Mortgage Banker* for $4 per year

All MBA members receive a copy of The Mortgage Banker as a part of their membership. Many take additional subscriptions at $4 annually, or $10 for three years, for various staff members. Others enter group subscriptions for builders, architects, bankers, investors, realtors and others with whom they regularly do business. They have found that subscriptions used in this way constitute a good public relations and advertising medium.

Subscriptions to The Mortgage Banker have never been solicited but the magazine is now available for general subscription. If you would like to enter additional subscriptions for members of your organization, or for anyone you believe might appreciate receiving it regularly, you can now do so at the rates indicated. Those receiving gift subscriptions will be mailed a card by The Mortgage Banker noting the firm donating the subscription. Write Circulation Department, The Mortgage Banker, 111 West Washington Street, Chicago 2, Illinois.

## A MATTER FOR CLARIFICATION

In the June issue of The Mortgage Banker appeared an article on "The Question of Usury and the Status in Each State" by Malcolm C. Sherman, a part of which was a table noting existing law in each state as it applies to usury. The listing for Colorado was shown as a legal 6 per cent interest rate, with a maximum of 12 per cent and the penalty for usury was that "the contract is void and the lender is subject to a fine of $25 to $500." This was not accurate and the correct listing for Colorado is as follows:

**PENALTY FOR USURY AND SO STATED IF A CORPORATION MAY NOT PLEAD USURY**

| *State* | *Interest Rates* *Legal* | *Maximum* | **(excluding rates permitted in many states for pawn brokers, 2d mortgages, in small loans)** |
|---|---|---|---|
| Colo. | 6 | 12 (for interest, discount or consideration where there is no license from the state bank commissioner, but, with such license 24 per cent per year on the actual amount of the loan, which charge shall cover all expenses, demands and services of every character). | Usury is a misdemeanor. Three times the excess collected over allowable charges may be collected by suit brought by the payor of such excess within one year after payment (Colo. Rev. Stat., sec. 73-3-7). |

### QUALITY CONSTRUCTION

*(from page 29)*

homes under construction. Although, we do not attempt to demand these items we explain to builders working in the higher price ranges that use of items merely meeting the bare minimum is not appropriate, and will in all probability result in appraisals which are somewhat less than estimated cost.

Another recent development in our program to encourage quality construction is seen in the new instructions relative to estimation of maintenance and operating expenses. These estimates are used in our mortgage credit analysis wherein we relate the purchaser's income to the total housing expense made up of debt service, taxes, insurance, and maintenance and operating expenses. We are now requiring Insuring Offices to make more precise estimates of maintenance and operating expenses in the knowledge that use of materials which are relatively maintenance free and that installation of equipment which is relatively more economical to operate will reduce total housing expense. This in turn will make it possible to qualify more purchasers within a given price range and thus stimulate production.

We are using this principle in another way in the higher priced homes. In the preliminary consideration of new construction projects initial costs of alternative materials and equipment are compared and the differences weighed against possible savings in maintenance and operating expense. In many cases such comparison will show that the increase in mortgage money necessary to finance the extra cost of maintenance saving materials and more efficient equipment will involve additional debt service which is only a fraction of the saving in maintenance cost and operating expense. We then advise the builder to include not only the more economical materials and equipment but also additional betterments in construction and facilities, pointing out that although a higher mortgage will be required the additional amount can be carried by the home owner with the savings in housing expense. In this way the home owner gets more house at the same housing expense and the lender gets better mortgage security.

Now a word about the future. At the moment we are working on a better method of reflecting quality in our appraisals. I have described our cost estimating method which takes into account small differences in cost between various materials and items of equipment. I have mentioned the adjustment for quality of workmanship. The cost estimate prepared in this manner is used in setting the upper limit of value, and does to considerable extent reflect quality. However, there remain unaccounted for the less tangible aspects of quality, such as architectural design and the convenience and livability of the home. Many appraisers are now saying that in some cases value should exceed the estimated cost of improvements to properly reflect the effect of these intangibles and give full recognition of quality. We are hopeful of finding a way to work this into our processing.

In conclusion, I am happy to report that we are now organized to maintain a continuing review of our minimum property standards adjusting them where experience dictates and adding to them as required by the development of new materials and methods. In so doing our principal objective is to assure the home owner the best value for his money. This in turn assures sound mortgage security.

*since 1861...*

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Nashville, Tennessee, S.W. Corner 3rd & Union St.
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Denver, Colo., 407 Columbine Bldg., 1845 Sherman St.
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**Directory of Agencies furnished on request.**

*Kansas City Title Insurance Company*

Capital, Surplus and Reserves Exceed $6,000,000.00

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